Assessment of Market
Practice & Regulatory Policy
12 July 2022 | Third Quarter
Issue 66 | Editor: Paul Richards

ICMA
Quarterly Report

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Diversity and inclusion measures at the Bank of England

ICMA
International Capital Market Association

ICMA

International Capital Market Association

The mission of ICMA is to promote resilient and well-functioning international and globally integrated cross-border debt securities markets, which are essential to fund sustainable economic growth and development.

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include public and private sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has over 600 members in 65 jurisdictions worldwide.

ICMA brings together members from all segments of the wholesale and retail debt securities markets, through regional and sectoral member committees, and focuses on a comprehensive range of market practice and regulatory issues which impact all aspects of international market functioning. ICMA prioritises three core areas – primary markets, secondary markets, repo and collateral: with two cross-cutting themes of sustainable finance and FinTech.

Published by: Corporate Communications, International Capital Market Association Limited, 110 Cannon Street, London EC4N 6EU Phone: + 44 207 213 0310 info@icmagroup.org

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Foreword

Resetting in turbulent times

by **Bryan Pascoe**

It was a great pleasure to host our AGM and Conference last month in Vienna and to see so many of our members, friends and stakeholders in attendance. I think it's fair to say that we were delighted with the outcome and positive energy that filled the rooms. As my first AGM and Conference in the role of CEO, the event fully reinforced for me the very important and pivotal role that ICMA plays as a focal point for industry debate and also how we need to rise to the multiple challenges and opportunities looking ahead, with many members identifying areas where ICMA can target its attention. It is very hard to replicate the benefits of the informality of direct conversations at a drinks reception on a Zoom or Teams call! I was extremely impressed by the content and insight provided in all the keynote speeches and panels, in most cases highly reflective of both the content and output of the work conducted by ICMA through its committees and working groups, with sustainability and digitalisation firmly embedded in all our areas of market focus. We are extremely grateful to all the participants for their exceptional commitment and valuable input. It was particularly pleasing that we were able to profile D&I in such an engaging way through the fireside chat between ICMA's Chair, Mandy DeFilippo, and Julia Hoggett, Chief Executive Officer of London Stock Exchange, really bringing this central topic to life as part of the proceedings.

We will, of course, be doing it all again next year and look forward to seeing as many of you as possible in Paris where we will be holding the event. If you attended in Vienna and have any thoughts on how we can build on this year's content or logistics for next year, please don't hesitate to reach out to me directly or to Allan Malvar (allan.malvar@icmagroup.org).

The AGM was also an opportunity for me to reflect on our activities over the last year and to lay out our future priorities. It has been very heartening to see that our membership has grown strongly, with an excellent forward-looking pipeline. Many of our new members are from the market infrastructure and technology space as well as the buy side, which is great to see, as it enables us to provide more inclusive and broad representation across our committees and working groups reflective of all parts of the industry, enhancing the effectiveness and breadth of impact of our work, which is an important priority for our organisation. This can apply on a geographic basis also to foster more cross-regional engagement. For example, in the repo space we are exploring a cross-regional forum, to be guided by ERCC members, that can support best practice and engagement across developed and emerging markets and further embed critical frameworks that underlie the efficient workings of the market, such as the GMRA. Of course, at the same time, we don't want to detract from our more "community-type" platforms, such as AMIC or the PSIF or other issuer fora, where there is huge benefit from the coming together of participants with similar challenges on a day-to-day basis.

As reflected above, the topic of technology and digitalisation is becoming more of a core focus for us across all areas and we will be embedding this further across all our market activity looking forward. To recap, we have important efficiency and standardisation initiatives under way, such as the Common Domain Model (CDM) for repo and bonds, GMRA Clause Library and Common Data Dictionary for primary market data fields which have all made good progress, while our Working Groups on DLT usage and Blockchain bonds are seeing significant member interest. As part of the development of ICMA's broader strategy in this space we are also reviewing our own use of market-related data, identifying potential opportunities to reinforce our existing work across the various pillars within market practice and regulatory policy and sustainable finance, and to enhance the offering to members by using data more strategically, systematically and commercially. To realise these opportunities, we are exploring the potential for establishing new strategic partnerships with data providers. In repo and collateral, secondary markets and sustainable finance, discussions and trials are under way to evaluate additional value to our members.

Foreword

The magnitude of recent rate rises and inflation, energy-related and otherwise, and potential recession concerns, have shocked everyone, with a heavily negative and defensive tone now manifest across the full spectrum of rates and credit markets. As part of this, broader market liquidity indicators and the primary market price discovery process have been showing some worrying signs, even in sectors less traditionally associated with such dynamics. Furthermore, for anyone who has been in the industry for less than 15 years this is genuinely new territory, so the ability of most market players to react rationally will be tested. This makes our work and profile across areas such as the functioning of the secondary corporate bond market, framework for the consolidated tape under MiFIR and UK regulation, settlement efficiency and money market fund regulation, connecting members frequently with key regulators and market stakeholders, all the more important. Undoubtedly, as further market vulnerabilities emerge across both developed and emerging markets, we will have more to do in connecting key industry players through our work and network, and we will need to be more agile in what we do and more attuned to market trends to be equipped to support member needs.

On the advocacy front we are meeting the challenges of market and regulatory divergence and have continued to achieve notable results on key initiatives like the consolidated tape, mandatory buy-ins under CSDR, smooth sterling LIBOR transition (and now on US dollar under English law) and the Hong Kong SFC Code of Conduct on primary market bookbuilding and placing. As always, we endeavour to prioritise areas which have the most relevance and value for members. Certainly, in sustainable finance the regulatory agenda, particularly with an EU context, is becoming increasingly overheated with market participants mindful of and concerned by the broad-based implications. While we fully support the intentions of the EU, our principal focus remains on advocating for frameworks that support international consistency and converging standards to ensure the market can evolve in a cohesive manner. On this matter we are actively engaged with the European policy and regulatory community.

Finally, all members will recently have received details of the proposed membership fee increase which I introduced during my report at the AGM and we have already begun our direct member engagement on this subject. It is important to note that ICMA membership fees have not been increased in over 10 years and the Association has changed beyond recognition over this time in terms of the scope and breadth of our activities to serve members. As outlined in our communication, we also have plans and initiatives under way to continue to ensure that we are best positioned to meet the evolving needs of our membership in an ever-changing market. With this in mind, I very much hope that you understand the need to increase fees at this point to put the Association on a firm and stable financial footing, and I hope we can count on your support when the increase will be voted on at our Extraordinary General Meeting in November (further details on timing to follow).

Contact: Bryan Pascoe, Chief Executive, ICMA
bryan.pascoe@icmagroup.org

International capital markets in a time of economic shocks

by **Paul Richards**

Summary

International capital markets have had to contend with a series of different economic shocks over the past few years. This assessment reviews, in summary form and in an international context, official sector economic policy in western Europe in response to the Russian invasion of Ukraine, at a time when the international economy has not yet fully recovered from the COVID-19 pandemic. There are implications for real growth and inflation, monetary policy, fiscal policy, financial stability, the international monetary system and regulatory divergence.

Introduction

1 In financing the global economy, international capital markets have had to contend with a series of different economic shocks over the past few years: the global financial crisis of 2007/09; the ensuing sovereign debt crisis in the euro area; the EU migration crisis; Brexit between the UK and the EU; the global COVID-19 pandemic over the past two years; and now the Russian invasion of Ukraine in February 2022 – the first major war in Europe since the end of the Second World War – followed immediately by the imposition of sanctions on Russia by the US and its allies. Besides being a humanitarian tragedy, the Russian invasion of Ukraine represents both an economic shock and a geopolitical shock which has led to a much greater political focus in western Europe on defence through NATO against the perception of a common threat. The threat has led directly to the historic decisions by Finland and Sweden to apply to join NATO and to an historic change in German defence policy, as well as an increased emphasis in western Europe on energy security.[1]

2 This assessment reviews, in summary form and in an international context, official sector economic policy in western Europe in response to the Russian invasion of Ukraine, at a time when the international economy has not yet fully recovered from the COVID-19 pandemic.[2] Against this backdrop, there are implications for real growth and inflation, monetary policy, fiscal policy, financial stability, the international monetary system and regulatory divergence. It is important to recognise that official sector policy varies from one jurisdiction to another; that it is not straightforward to disentangle the different elements in official sector policy as they are all to some extent related; and that the geopolitical and economic outlook remains particularly uncertain.

Real growth and inflation

3 Although the international economy appeared in 2021 to be recovering strongly from the COVID-19 pandemic,[3] developments since the Russian invasion of Ukraine have exerted downward pressure on real growth and upward pressure on inflation in western Europe as well as the US, leading to an increasing risk of stagflation. Against a background of tightening labour markets, particularly but not only in the US, inflation rates have increased markedly as a result of energy, food and commodity shortages and supply bottlenecks.[4]

1. Olaf Scholz, the German Chancellor: "We are experiencing a watershed. History is at a turning point.": Davos, 26 May 2022.

2. The recent COVID-19 lockdowns in China have also had an economic impact internationally.

3. "In fact, in 2021 as a whole, the world economy expanded at its fastest rate in almost 50 years.": BIS Annual Economic Report 2022.

4. In its spring report, the IMF reduced its global forecast of real growth by 0.8% to 3.6% in 2022. The IMF forecast inflation of 5.7% in advanced economies and 8.7% in emerging economies in 2022.

4 In response to the Russian invasion of Ukraine, the authorities – and many corporates – in western Europe as well as the US are now giving a much higher priority to reducing external dependencies by "on-shoring" or "near-shoring" their activities, despite the potential implications for inflation.[5] In particular, the US Treasury Secretary has indicated that the US will now favour "the friend-sharing of supply chains to a large number of trusted countries" with "a set of norms and values about how to operate in the global economy."[6] But although the authorities are seeking to ensure energy self-sufficiency and diversification of supply chains from "just in time" to "just in case", it is clear that these objectives will take time and will not be easy to achieve.

Monetary policy

5 While the ECB has recently debated the precise definition of its inflation target for the euro area, the commitment to an inflation target – with operational independence in seeking to achieve it – is not currently in doubt.[7] The question is how the inflation target is going to be achieved, given the current conjuncture. A period of subdued inflation during the COVID-19 pandemic, accompanied by low – and, in the euro area, negative – official interest rates, supported by the monetary stimulus provided by extensive and prolonged quantitative easing (QE), has now given way to mounting evidence of a pronounced rise in inflation well above central bank target levels. There is increasing acceptance that the rise in inflation can no longer be regarded as solely transitional. Once inflationary expectations become embedded, they are more difficult to root out. Inflation could persist for some time. [8]

6 The rise in inflation well above target levels has left central banks in the US, euro area and UK with the difficult task of taking steps to control inflation without causing recession.[9] In response, the Federal Reserve has led the way by introducing quantitative tightening (QT)[10] and by making significant increases in short-term interest rates, with the market expecting further increases in the period ahead. The Bank of England has recognised that the inflationary outlook represents the biggest test of its monetary policy framework for 25 years.[11] And the ECB has recognised that "inflation in the euro area is undesirably high and projected to stay that way for some time to come", signalling that it is willing to act in "a determined and sustained manner".[12] Even so, some central bankers have drawn attention to the risk that a delayed policy response now will require a greater policy response later;[13] and doubts have been raised in the market about whether central banks can fight inflation effectively if short-term interest rates remain negative in real terms.

7 The prospect of a sustained rise in short-term interest rates potentially represents a structural – and not just a cyclical – change in the outlook for fixed income markets, following a long period of declining bond yields over much of the past 40 years. Accompanied by the end of QE, the rise in short-term rates also risks leading in the euro area to national fragmentation as a result of a significant widening of sovereign bond spreads (eg between German bunds and Italian BTPs), with implications also for borrowing rates in the corporate sector. The ECB is working on an "anti-fragmentation" scheme to limit the rise in spreads (eg through intervention). This would need to address both the monetary consequences of the scheme and the risk of legal challenges.

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5. See, for example, Larry Fink: "The Russian invasion of Ukraine has put an end to the globalisation we have experienced over the last three decades. … Companies and governments will be looking more broadly at their dependences on other nations. This may lead companies to on-shore or near-shore more of their operations, resulting in a faster pullback from some countries. A large-scale reorientation of supply chains will inherently be inflationary.": Letter to BlackRock shareholders, March 2022.

6. Janet Yellen, US Treasury Secretary: [The US will now favour] "the friend-sharing of supply chains to a large number of trusted countries" with "a set of norms and values about how to operate in the global economy": April 2022.

7. There may be a risk of political interference in the future if central banks fail to keep inflation under control.

8. See Agustin Carstens, General Manager, BIS: "The forces behind high inflation could persist for some time. Central banks will need to adjust, as some are already doing. No one wants to repeat the 1970s.": speech in Geneva, 5 April 2022.

9. Consumer price inflation: 8.6% in the US, 9.1% in the UK and 8.1% in the euro area: May 2022 on a year ago.

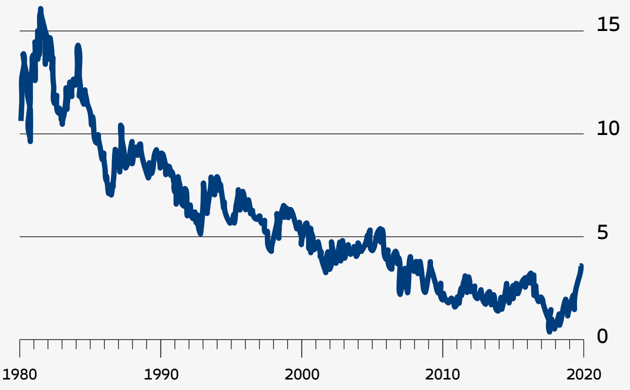
10. This would include a process of "run-off" under which the Federal Reserve would not reinvest the proceeds of maturing securities.

11. Andrew Bailey, Governor of the Bank of England: "This is the biggest test of the monetary policy framework for 25 years." [ie since operational independence in 1997]: 16 May 2022.

12. Christine Lagarde, President of the ECB: [The ECB needed to act] "in a determined and sustained manner, incorporating our principles of gradualism and optionality." She said that there were "clearly conditions in which gradualism would not be appropriate." 28 June 2022.

13. "As historical experience has shown time and again, the long-term costs of allowing inflation to become entrenched far outweigh the short-term ones of bringing it under control.": BIS Annual Economic Report 2022.

Chart: US Treasury 10-year bond yields



Source: Refinitiv/FT May 2022

8 In the floating rate market, the authorities have for some time planned the permanent cessation of LIBOR, on the grounds that LIBOR poses clear risks to global financial stability, as the market for unsecured wholesale term lending between banks is no longer sufficiently active to support such a widely used reference rate. Instead, the authorities have encouraged the market to adopt near risk-free reference rates, where the volume of underlying market transactions is greatest. Panel bank LIBOR ceased permanently at the end of 2021 in 24 of the 35 LIBOR settings in the five LIBOR currencies, with a change in methodology in three sterling and three Japanese yen settings from panel bank to synthetic LIBOR. The remaining five panel bank US dollar LIBOR settings will continue only until the end of June 2023.[14]

9 The rise in short-term interest rates, particularly in the US, has also led to a strengthening of the US dollar in the foreign exchange market. For many emerging markets, the combination of a rising dollar in terms of local currency, rising interest rates and public debt and much higher food and energy prices, is having a substantial economic impact, particularly in those emerging markets already most vulnerable as a result of the impact of the COVID-19 pandemic.

Fiscal policy

10 In response to the COVID-19 pandemic, government budget deficits in the western world rose very substantially, as governments used fiscal policy in an attempt to limit the pandemic's economic impact. In the EU, fiscal rules on government budget deficits were suspended in response to the pandemic. Large government budget deficits in the EU remain. There is not yet a consensus on whether to return to the fiscal *status quo ante*, and if not, what the alternative should be. So the European Commission is proposing that the suspension should be extended until the end of 2023. But the pandemic *has* led to agreement on joint debt issuance by the EU to fund the recovery and climate change.[15]

11 It is not yet clear whether the EU will broaden its role in joint debt issuance, for example to finance the need for an increase in EU defence spending and energy self-sufficiency. But, since the Russian invasion of Ukraine, there has been increasing attention in the EU to possible ways of speeding up EU decision-making:[16] eg by replacing unanimity by qualified majority voting, though this would require a change in the EU Treaty. In addition, the re-elected French President has proposed the creation of a broad political community of European democracies to include the Ukraine and Balkan countries which do not currently qualify to join the EU,[17] while Ukraine and Moldova have now been accepted by the European Council as candidates for accession to the EU.[18]

Financial stability[19]

12 The resilience of the international banking system has been strengthened as a result of the global reforms introduced by the authorities in response to the 2007/09 global financial crisis, both in the form of capital increases and liquidity buffers for banks.[20] They have been stress-tested regularly by central banks and have proved sufficiently resilient so far both to withstand the impact of the COVID-19 pandemic and to limit the financial disruption arising from the war in Ukraine. Capital markets – and their underlying market infrastructure – have also continued to be resilient and to function in an orderly way, despite volatility.

14. High levels of inflation have also reinforced the role of bonds index-linked to measures of inflation.

15. A programme of €750 billion of funding entitled *Next Generation EU*.

16. See, for example, Mario Draghi, Prime Minister of Italy: "We need a pragmatic federalism: one that encompasses all the areas affected by the transformations taking place, from the economy, to energy, to security.": address to the European Parliament on 3 May 2022.

17. Speech by President Macron to the European Parliament, 9 May 2022. He suggested that countries which have left the EU (ie the UK) would also be eligible to join.

18. European Council on 23 June 2022.

19. "Financial stability authorities must focus on what *could* happen rather than just what is most *likely* to happen.": Sir Jon Cunliffe, Deputy Governor of the Bank of England for Financial Stability: *Recollections on Financial Stability,* 2 March 2022.

20. Sam Woods, Head of the UK Prudential Regulation Authority, has proposed more flexible prudential rules for UK regulated banks: "My simple framework revolves around a single, releasable buffer of common equity, sitting above a low minimum requirement.": City Week, 26 April 2022.

13 But a major outstanding issue in the EU is the need to complete Banking Union, which would involve a common EU safety net for depositors to complement national schemes, diversification of banks' sovereign exposures, improvement in the management of failing banks and the development of a true Single Market in banking services.[21] A renewed attempt is being made by the authorities in the EU to resolve these outstanding issues. Progress is also being made towards the complementary EU objective of Capital Markets Union through a number of useful initiatives under the CMU Action Plan (eg relating to the ESAP, and the AIFMD, ELTIF and MiFID II/MiFIR reviews). But some underlying issues (eg a common approach to the treatment of debtors and creditors under corporate insolvency laws) have for a long time proved very difficult to resolve.

14 While the resilience of the banking system has been strengthened, there is still official concern about the resilience of the non-bank financial sector and its vulnerability to external shocks. This follows the "dash for cash" during the crisis in March 2020 at the beginning of the COVID-19 pandemic, when extensive central bank intervention was provided to support the market and restore order. There is also official concern to ensure that the financial system is sufficiently resilient to address operational risk.[22] In particular, the authorities have emphasised that they regard an orderly corporate bond market as critical to the needs of the real economy, and they consider that the crisis at the beginning of the COVID-19 pandemic raises questions about market functioning and whether improvements could be made to bolster liquidity.[23]

The international monetary system

15 The US dollar has been at the centre of the international monetary system for a very long period: at least since 1971, when the dollar went off the gold exchange standard, and in practice for most of the past hundred years. The dollar still represents nearly 60% of global central bank foreign reserves and is the most widely used currency in international trade.[24]

16 In response to the Russian invasion of Ukraine, the decision by the US authorities to freeze the foreign reserves of the Central Bank of the Russian Federation in the US, accompanied by similar action by allied governments, has, on the one side, demonstrated the important role of the dollar as the focal point in the international monetary system while, on the other side, it has led to a debate about whether this will change in future and to what extent. That would require an international consensus about the emergence of any potential alternatives, and it could run the risk of leading to a more fragmented international monetary system in the future than in the past. The evidence so far is that officials responsible for managing central bank foreign reserves continue to view the dollar as their safe haven currency of choice.[25]

Regulatory divergence

17 The Russian invasion of Ukraine has intensified international cooperation between the US and its allies in response, and they have taken a common approach to imposing sanctions. But there is no precedent for imposing such a wide range of sanctions – in a successive series of intensifying measures – on a G20 member state. So it is not surprising that, in the short term, the sanctions imposed have been complex for firms operating in international capital markets to interpret and implement in different jurisdictions. For example, questions have arisen about how to handle settlement fails caused by agreed transactions frozen as a result of becoming subject to sanctions, either directly or indirectly; and about how to mark to market when there is no market.[26] The US authorities and allies have also faced difficult decisions: for example, about whether to use sanctions to block the servicing of Russian sovereign foreign currency debt interest and principal due in US dollars, thereby risking a default with a potential impact on non-sanctioned market firms; and about how to assess the legal implications of confiscating frozen Russian assets to help finance the rebuilding of Ukraine after the war if sanctions are not lifted.[27]

18 In the longer term, there is a risk that the global financial system becomes increasingly divided in practice into a number of separate trade and payment blocs. If so, this could have substantial repercussions for international capital markets by making them less open and integrated. It could also make it more difficult for global political bodies – like the G20 – to pursue a global approach to policy in future, and for

21. See Pascal Donohoe, President of the Eurogroup and Ireland's Minister of Finance: *Banking Union is Essential if the EU is to Ride Out Future Crises,* FT 15 March 2022.

22. See, for example, Sir Jon Cunliffe: Recollections on Financial Stability, 2 March 2022.

23. Martin Moloney, Secretary General of IOSCO: "Orderly corporate bond market functioning is critical to the needs of the real economy. But the events of March 2020 raise questions about market functioning and whether improvements could be made to bolster liquidity.": April 2020.

24. The US dollar represented 59% of central bank foreign reserves at the end of 2021, compared with 71% in 1999, when the euro was launched. The euro represented 20% at the end of 2021. Source: IMF.

25. Poll by *Central Banking* based on responses from 82 reserve managers managing 48% of the global total. The poll was conducted in February and March 2022.

26. See Leland Goss, *Russia-Ukraine: Sanctions Effects on Markets,* ICMA Quarterly Report for the Second Quarter 2022.

27. See, for example, *Frozen Assets:* FT, 18 May 2022.

global financial institutions in the official sector – like the IMF and the World Bank – and global financial committees in the official sector – like the FSB, IOSCO, BCBS and CPMI – to pursue a global policy in future on financial regulation and supervision.[28] In addition, global bodies may need longer in future to reach a consensus before taking decisions. For example, it remains to be seen whether, and if so how soon, the agreement reached in the OECD on a global minimum level of corporate tax will be fully implemented; and whether the World Trade Organisation can be reformed in a way which improves the process of resolving trade disputes.[29]

19 While the remit of these official institutions and the agreements that they reach are potentially global in scope, it is also important to recognise that the legislation arising generally needs to be implemented in different jurisdictions (eg the US, the EU and the UK) separately. The power to take decisions about whether, when and in what form to introduce legislation lies ultimately with the regional or national governments concerned, and they frequently need to take account of distinct local factors.[30]

20 The global transition from LIBOR to risk-free rates is a recent example. The FSB Official Sector Steering Group has the common objective of overseeing the transition from LIBOR to risk-free rates globally. But the legislation needed to implement this has had to be introduced separately in the US, UK and the EU, among others. The authorities in each jurisdiction are aware of the importance of avoiding a conflict of laws between them.

21 The use of regional or national legislation to address financial stability risks internationally can also give rise to scope for market fragmentation. For example, post-Brexit, the EU has granted regulatory equivalence to UK CCPs until mid-2025. The UK authorities consider that these arrangements should persist permanently. But drawing a comparison with the EU's over-dependence on energy imports from Russia, the EU Financial Services Commissioner has argued that it is not sustainable for the EU to be heavily dependent on a third country for clearing. "We do not rely this strongly on other jurisdictions in any other area. It is a risk for the EU and that risk must be addressed."[31] The ECB is following a broadly similar approach to the activities of banks which it supervises.[32]

ICMA's role in international capital markets

Against this international background, ICMA continues to have an important role to play in international capital markets. See the Foreword by Bryan Pascoe, ICMA's Chief Executive, to the current edition of the ICMA Quarterly Report.

In his Foreword to the ICMA Quarterly Report for the Second Quarter, Jérôme Haegeli of Swiss Re, and a member of the ICMA Board, drew attention to three issues in particular: divergence; digitalisation; and decarbonisation:

"*Divergence* within and between countries is a huge concern as it creates different paths for economic recovery, economic inequality and socio-economic opportunity. Our path forward has to be socially inclusive.

Digitalisation – inclusive digital transformation – is essential to "future proof" the world economy, make businesses more resilient and reduce divergence.

Decarbonisation, the transition to a net-zero carbon emission world, is needed to end carbon emissions and stop climate change. ICMA's work in this field is already innovative and influential, such as the Green Bond Principles. Decarbonisation of energy supplies has been given fresh impetus by the latest geopolitical developments, as well as the energy price crisis. The drive for energy security may accelerate this transition."[33]

Contact: Paul Richards
paul.richards@icmagroup.org

28. Financial Stability Board, International Organization of Securities Commissions, Basel Committee on Banking Supervision and Committee on Payments and Markets Infrastructures.

29. However, the International Sustainability Standards Board (ISSB) has been set up following agreement at COP26 in Glasgow.

30. There are also a number of cases in which legislation in one particular jurisdiction is intended to have an extra-territorial effect in others.

31. Speech by Mairead McGuinness, EU Financial Services Commissioner, at the ECB, 6 April 2022. She said that she expects to propose legislation in October 2022 that would include incentives for bodies to use clearing houses inside the EU and penalties for using clearing houses located in London.

32. Andrea Enria, Head of Supervision, ECB: "We want to ensure that incoming legal entities have onshore governance and risk management arrangements that are commensurate, from a prudential perspective, with the risk they originate.": 19 May 2022.

33. Jérôme Haegeli, Swiss Re, Foreword to ICMA Quarterly Report for the Second Quarter 2022.

Corporate bond market liquidity: ICMA response to IOSCO discussion paper

by **Andy Hill**

In July 2022, ICMA submitted its response to IOSCO's April 2022 discussion paper: *Corporate Bond Markets – Drivers of Liquidity During COVID-19 Induced Market Stresses*. The response was drafted with input from ICMA's Secondary Market Practices Committee (SMPC).

Background to the IOSCO discussion paper

As part of its 2021-22 work plan, IOSCO established a Corporate Bond Market Liquidity (CBML) Working Group through its Financial Stability Engagement Group (FSEG). The CBML was tasked with analysing the corporate bond market microstructure, resilience, and liquidity provision during the COVID-19 induced market stresses of March 2020 and subsequent months. Parts of the CBML's work have also contributed to IOSCO's wider input to the Financial Stability Board (FSB) Non-Bank Financial Intermediation (NBFI) workplan.

The discussion paper summarises the results of IOSCO's analysis and solicits views from stakeholders on the key outcomes described below. Specifically, IOSCO is interested in stakeholders' feedback on possible ways to help improve market functioning and liquidity provision, such as assessing the feasibility, benefits, and costs of mitigating shifts in liquidity demand and alleviating supply side market constraints, including the potential unintended consequences from any prospective market changes.

The questions posed in the discission paper are organised along the following themes: liquidity during the COVID-19 induced stress; the drivers of liquidity – supply, demand, and market participant behaviours; dealer intermediation and concentration; corporate bond heterogeneity and standardisation; growth of electronic trading; and increased transparency.

ICMA's response

In its response, ICMA broadly agrees with the key outcomes drawn from IOSCO's analysis, at least from the perspective of European corporate bond markets. ICMA concurs that corporate bond markets, in terms of overall outstandings, have increased significantly in recent years, while dealer capacity would appear to have remained unchanged. ICMA also agrees that despite the advancement of electronic trading, along with the development of new trading protocols and the introduction of alternative liquidity dynamics, the essential structure of corporate bond markets remains relatively unchanged.

IOSCO's observations of how the market performed during the COVID-19 induced turmoil, leading up to and after central bank interventions on 18 March 2020, are also consistent with those reported in ICMA's analysis of the European investment grade corporate bond market during this period.[1] For example, the ICMA report notes that secondary trading volumes did not decrease significantly leading up to 18 March, and increased subsequently (one sell-side respondent suggests that these more than doubled). However, this is against a backdrop of a marked increase in client enquiry, meaning that hit-rates dropped (to around half of their average level), indicating a relative reduction in liquidity. ICMA further notes that the ability and willingness of dealers to provide balance sheet to support liquidity provision also became challenged at this time. While many banks did "step up to the plate" to continue providing liquidity and making markets for their client, albeit with significantly wider bid-offer spreads, this was not the case for all market makers, and overall dealer capacity appears to have shrunk at a time when it was needed most.

1. See: *The European investment grade corporate bond secondary market & the COVID-19 crisis,* ICMA, May 2020

The ICMA response also cautions against using this isolated and relatively unique event being relied upon to inform policy decisions. It notes that the market moves and behaviours of March 2020 were not caused by inherent structural weaknesses or the mispricing of risk, as had been the case in 2007-2008, but were rather the direct consequence of a global health crisis and the actions undertaken by various governments in response to this. It was the effective shutting-down of economies that prompted the "dash for cash" and the subsequent high levels of market volatility across all asset classes.

ICMA further supports IOSCO's assessment that corporate bond markets, structurally, are very different from other asset classes such as equities. Firstly, corporate bond markets consist of many lines of bonds per issuer (sometimes hundreds). Secondly, corporate bonds are largely buy-to-hold instruments that are inherently illiquid. As the IOSCO paper notes, most trading activity tends to be in the first few weeks, or even days, after a bond is issued, after which trading becomes relatively scarce. Thirdly, there is very little direct retail investment in corporate bonds, which are mainly traded by wholesale investors and bond funds. Fourthly, the primary source of secondary market liquidity comes from market makers who intermediate flows through their balance sheets, which often involves warehousing and managing risk. This is particularly important in the case of larger ("block") trades. As the IOSCO paper observes, the underlying size of corporate bond markets has increased significantly in recent years, while at the same time dealer capacity to provide liquidity has become both more constrained and concentrated.

The ICMA response suggests that what is missing, at least in sufficient detail, from the IOSCO findings is an analysis of the role of both the credit repo[2] and single name credit default swap (SN-CDS) markets. ICMA's work in recent years has illustrated how fundamental both of these are in supporting liquidity provision for corporate bond markets.[3] ICMA's research indicates that, at least from the perspective of the European markets, liquidity has deteriorated quite substantially since 2008, and that this has had a direct impact on liquidity provision in the underlying corporate bond market.

ICMA's response also addresses questions related to buy-side behaviours during the COVID-19 induced turmoil, corporate bond market heterogeneity and standardisation, the evolution of electronic trading, and the pros and cons of increased market transparency.

Contact: Andy Hill
andy.hill@icmagroup.org

2. The term credit repo is used widely to encompass both repurchase agreements and securities lending in corporate bonds.

3. See: *The European Credit Repo Market: The cornerstone of corporate bond market liquidity,* ICMA, June 2017, and *The European Corporate Single Name Credit Default Swap Market - A study into the state and evolution of the European corporate SN-CDS market,* ICMA, February 2018.

Hong Kong SFC conduct requirements for bookbuilding and placing


by **Mushtaq Kapasi** and **Ruari Ewing**

In October 2021, the Hong Kong Securities and Futures Commission (SFC) released consultation conclusions including the final text for a new Code of Conduct for capital market transactions in Hong Kong. The SFC issued further FAQs in May 2022 to provide further guidance with respect to the Code.

The new Code is effective 5 August 2022, reflecting a nine-month implementation period.

This is the most significant regulation of debt primary markets in Asia-Pacific in recent memory. In fact, the SFC's proposals in certain aspects go beyond regulatory requirements found in other debt capital markets, including the EU and United States. The new Code will, at minimum, apply to all bond issuances managed from Hong Kong. The reforms will also affect syndication practices for a large proportion of cross-border G3 Asian deals and almost all international bonds from Chinese issuers. The new rules may also affect global deals with a more tenuous Hong Kong connection.

As the Code applies to DCM activities "conducted in Hong Kong", rather than to transactions as a whole, its application to regional and global transactions is complex. Scenarios in which lead managers in a transaction may be located both in Hong Kong and outside of Hong Kong pose particular difficulty in terms of determining consistent syndicate practices for a particular primary bond offering. This is especially true for those aspects of the Code relating to the appointment of syndicates by the issuer, assessment of investors, and book updates. The SFC's recent FAQ provided helpful clarity allowing a Hong Kong syndicate to take "reasonable steps" for compliance in some situations where adherence to the Code would require cooperation by other syndicates or investors outside of Hong Kong (and therefore not subject to the Code).

Highlights of the new Code include:

- *DCM scope:*
  - For DCM transactions, the Code applies to relevant bookbuilding, placing and marketing activities conducted in Hong Kong. (On the other hand, ECM deals are fully in scope or out of scope depending on whether they are listed in Hong Kong).
  - Club deals, private placements, and pre-priced/allocated deals are out of scope.
  - Convertible and exchangeable bonds will be considered DCM for purposes of the Code.
- *Appointment of syndicate:*
  - Syndicate managers should be appointed "at an early stage".
  - All active syndicate members must be formally appointed with a written agreement which specifies roles, responsibilities, fixed fee entitlement, and a fee payment schedule.
- *Advice from syndicates to issuer:*
  - Syndicate managers do not have to advise issuers on syndicate membership.
  - Syndicate managers generally do not have to advise issuers on fees, but will be required to provide guidance to issuers on market practices for fee structure.
  - Syndicates should advise on pricing and allocation, but should follow the allocation strategy agreed with the issuer.
- *Syndicate/proprietary orders:*
  - Proprietary orders of syndicates must give priority to outside investor orders, unless otherwise advised by the issuer.

- Arm's length orders from syndicate asset management arms will not be considered proprietary (ie they are *pari passu* with external client orders).
- Orders from treasury arms of syndicate banks will be considered proprietary.

- *X orders* are prohibited, with no exemptions.
- *Book updates:*
  - Effectively mandatory: syndicates should disclose "complete and accurate information in a timely manner on the status of the order book" to targeted investors.
  - Syndicate managers should also disseminate "material information related to the offering" (particularly orders and price-sensitive info) to other syndicate banks "in a timely manner".
- *Assessment of investor clients:*
  - Lead managers should take "all reasonable steps" to identify investors associated with issuers and should advise issuers to provide sufficient information to syndicates to enable them to reasonably identify associated investors.
  - For DCM, "associated" investors are defined as investors who are directors, employees or major shareholders of issuers, syndicate members, or related group companies.
- *Investor disclosure:*
  - For "omnibus" orders, syndicate members will have to disclose the underlying investor identities to issuers and to the senior syndicate managers. (The intention is to enable discovery of duplicate orders and orders associated with the issuer or syndicates).
  - This information will be limited to client's name and ID, and the senior syndicate managers can use underlying investor information only for order allocation.
- *Rebates:*
  - No outright ban on rebates, but disclosure is required.
  - Rebates may be offered by issuers to intermediaries but cannot be passed on to end-investors.
- *Inflated orders:*
  - Syndicates should not "knowingly" accept inflated orders and should clarify with investor clients orders "that appear unusual".
- *Record keeping:*
  - Syndicate must keep a robust audit trail: this includes, among other things, records of all orders and changes to order books, as well as "key communications with and information provided to" issuer, other syndicate members, and investors.

The new Code follows the original consultation paper on *A Proposed Code of Conduct on Bookbuilding and Placing Activities in Equity Capital Market and Debt Capital Market Transactions* issued in February 2021, and ICMA's response to the consultation in May 2021.

In recent months, ICMA has worked intensively through the Asia Bond Syndicate Forum, the Asia-Pacific Legal and Documentation Forum, buy-side members of ICMA, and other market stakeholders and associations, to facilitate efficient and pragmatic procedures to comply with the letter and spirit of the Code.

ICMA will continue to remain active over the implementation phase:

- engaging directly with the SFC to elucidate areas of the Code relating to DCM where the practical interpretation is not clear;
- working through the ICMA primary market committees to establish best practices on procedures and documentation to comply with the Code, including template communications among syndicates and to issuers and investors;
- bringing together various constituencies (including issuers and investors across the region) to ensure that emerging market practice is fair, efficient and practical; and
- educating Asia-Pacific bond market stakeholders on the new Code and implications for Asian primary market practice.

@ **Contacts: Mushtaq Kapasi and Ruari Ewing**
mushtaq.kapasi@icmagroup.org
ruari.ewing@icmagroup.org

Sovereign debt vulnerabilities: new challenges ahead for debt workouts

by **Leland Goss**

The global pandemic, the war in Ukraine creating food, energy and other commodity price shocks, the return of inflation and other shifts in the global economy are creating financial stability challenges arising from worsening conditions in low-income countries and emerging market economies (together, EMEs). The roots of the current condition of EMEs however go back a number of years to the time of the 2008 global financial crisis.

Access to markets

The response to the global financial crisis (GFC) by governments and central banks resulted in prolonged and very low interest rates in advanced economies, providing many EMEs with the benefit of access to external debt capital markets with relatively stable interest and currency rates, combined with a historically low cost of funding. As would be expected, low-income countries took advantage of these market conditions, and the capital inflows increased their external debt to private sector and official creditors in the form both bonds and loans. These borrowers also saw a more diversified investor base, with non-bank financial institutions and official bilateral lenders having an increasing role along with other investors in their search for yield to boost returns.

Even before the COVID-19 global pandemic, concerns were being voiced regarding the increasing levels of debt to GDP in EMEs and in particular for sub-Sahara African sovereign borrowers. For the ten years prior to the COVID-19 outbreak, EME external borrowing grew from $3.3 trillion – approximately 25% of GDP – to $5.6 trillion, about 30% of GDP by the end of 2019.

COVID-19

The outbreak of COVID-19 had wide-ranging adverse effects on markets, leading to EME asset values falling and significant capital outflows. This in turn led to local currency depreciation, with the countries with higher levels of foreign currency debt experiencing larger outflows. Ratings downgrades of EME sovereigns resulted in bond indices ineligibility as well as increased funding costs. Responses from affected governments included foreign exchange interventions and in some instances asset purchases. The effect of COVID-19 on a number of EMEs' ability to generate revenues, for example, from tourism has led to reductions in public spending and investment.

A debt pandemic?

Through the period since the COVID-19 pandemic shock began in early 2020, the most adverse effects on debt sustainability have been limited to the lowest income countries and have avoided blowing up into a middle-income emerging market debt crisis. Market conditions during this time remained favourable for many middle-range credit EMEs, and with continuing market access aided by central bank support, these borrowers were able to keep refinancing, as well as increasing, their outstanding debt obligations. However, the reduction of fiscal space combined with commodity price instability and interest rates beginning to rise are now making debt burdens all the more difficult for EMEs to carry and service. 74 low-income countries will have to repay an estimated $35 billion to official bilateral and private-sector lenders during 2022, up 45 per cent from 2020, on the most recent data available, according to the World Bank. Most of the payments will be made to private creditors, particularly to bondholders. World Bank president, David Malpass, has stated that "countries are facing a resumption of debt payments at precisely the time when they don't have the resources to be making them."

Dealing with a systemic debt crisis

Given the worsening debt levels, there is now an increasing prospect of a widespread debt crisis. If there were a situation where a large number of sovereign debt restructurings were proceeding in parallel, this would present a number of new and difficult to overcome challenges. Creditors with exposures to, not one or a few, but many sovereign borrowers could face large aggregate exposures. Creditors could themselves experience financial difficulties and potential systemic implications, particularly if they are financial institutions. This also could make creditors more difficult to coordinate and less cooperative in negotiating necessary debt restructurings.

What can governments and multilateral lenders do to provide further support, encourage more private sector participation, and make debt restructuring more efficient and effective in the event of a systemic crisis? Worryingly, should such a systemic debt crisis arise requiring multiple deep restructurings of sovereign debt, the current resolution toolkit may not be adequate and has a number of gaps and shortcomings. There are financial limits to the number of programmes the IMF can run at the same time and finite numbers of experienced legal and financial experts to execute all of the debt workouts that may be needed. What most agree on is that there is clearly a need for a multilaterally coordinated effort including advanced economy governments, international financial institutions, and the private sector in order to ensure effective coordination of creditors, fair burden-sharing among official and private creditors and to reduce the risk of disruption by holdout creditors.

Limitations of the current financial architecture and available toolkit

(i) The Debt Service Suspension Initiative and G20 Common Framework

A multilateral initiative motivated by the pandemic, the Debt Service Suspension Initiative (DSSI), initiated by the G20 and Paris Club in 2020 sought to defer approximately $20 billion of debt service payments by 73 countries to bilateral creditors. Despite the extension of this into an expanded "G20 Common Framework" the programme's expectation of private sector creditors sharing the burden with official lenders has not materialised and the lack of private sector participation in the DSSI has been disappointing with only 42 countries getting $12.7 billion of debt relief according to the Paris Club. One structural obstacle to private creditor participation is that it is difficult for investors with fiduciary duties to voluntarily offer debt relief or extensions, while on the other hand, sovereign borrowers that request relief from private sector creditors can trigger a default, leading to cross-defaults and rating downgrades. Not surprisingly, most eligible borrowers with market access have instead chosen to keep refinancing their outstanding debt.

(ii) The Paris Club

The Paris Club has a role in coordinating official bilateral creditors and reprofiling debt of lower income sovereign borrowers. However, more lending to these countries today comes from non-Paris Club official lenders, in particular China, making the Paris Club less relevant and effective than it used to be.

(iii) Enhanced collective action clauses

Today, most new international bond issues contain the new generation collective action clauses that provide for super-majority voting in the context of a debt restructuring. However, these new terms, published in 2015 by ICMA, are not yet included in all outstanding bonds. In addition, the Argentina and Ecuador restructurings in 2020 demonstrated that these clauses along with other bond governance terms can be used opportunistically or in other ways not intended by governments that can be counterproductive to an efficient, good faith negotiated resolution with creditors.

(iv) Majority voting terms in private sector loans

With the support of the G7 during the UK Presidency in 2021, a working group was established to consider including majority voting terms in private sector loans by banks to sovereign borrowers. These terms would provide the same features as collective action clauses (CACs) found in sovereign bond terms and, it is argued, by standardising these terms provide more expedient resolution and restructuring of private sector loans to sovereign borrowers. However, thus far there has been little enthusiasm by the private sector lenders for adopting these measures.

(v) Efforts to improve debt transparency

Following the Mozambique debt scandal, an initiative to improve meaningfully debt transparency, in particular for sovereign loans, was established with support from the Paris Club, OECD, private sector industry associations and other parties. Most would agree that it is beneficial to fully disclose public debt to avoid fraud, corruption, and mispricing of risk. However, there has been little voluntary participation by the banks to date in this regard.

(vi) Legislative solutions

Establishment of a sovereign debt restructuring mechanism (SDRM) was first proposed in 2003. An SDRM would operate as alternative to the existing market-based, voluntary negotiated process used and would create a multilateral insolvency process and judicial body to oversee debt restructurings similar to that used for corporate bankruptcy. It would, its proponents argue, resolve many of the creditor coordination and inter-creditor equity issues that arise with the market-based approach that relies, in this respect, mainly on the operation of CACs. However, early on the US rejected the SDRM proposal and the IMF currently does not support establishing a SDRM and instead encourages use of the market-based approach. Other legislative measures proposed include "anti-vulture fund" provisions that, for example, would limit the recovery value of certain creditors to their original cost of investment. However, such an approach is likely to have undesirable and adverse market consequences for both investors and governments.

Conclusion

The official sector is to be commended for anticipating at an early stage the prospect of a multilateral, possibly systemic sovereign debt crisis and supporting measures to assist with mitigating the potential adverse consequences from such a crisis. However, as outlined above, the tools and mechanisms available for managing debt restructurings occurring in many countries simultaneously are imperfect. There is, unfortunately, no magic bullet. Ideally a pre-emptive, coordinated multilateral debt restructuring is needed for overly indebted countries to minimise the comparatively greater costs and disruption commonly found with post-default restructurings, with both private and official creditors participating. Experience shows that the earlier countries with unsustainable debt levels pre-emptively restructure their debt before they are pushed into default, the better the outcomes for both the debtor and their creditors.

Contact: Leland Goss
leland.goss@icmagroup.org

The GMRA clause taxonomy and library project

by **Lisa Cleary**

The standardisation of documentation to facilitate repo trading over the last three decades has been critical to the growth of the market and ICMA's development of the Global Master Repurchase Agreement (GMRA) has played a central role in this regard. The GMRA has become the "go-to" master trading agreement for documenting cross-border repo transactions, based on a published industry standard template.

Fostering the industry standard repo agreement has secured an efficient basis on which trading parties can document their repo transactions but further streamlining in terms of GMRA negotiation and execution is now possible through the application of technology via digital workflows.

As with many forms of industry master agreement, there is a proliferation of "house templates" which use different drafting and formatting styles to achieve the same business outcomes across different market participants. In addition, post financial crisis, the complex regulatory framework has put a strain on the approvals needed internally to ensure operational risk in the documentation is adequately managed. With the increasing need for legal agreement data for downstream systems (such as collateral, risk, pricing and capital), each market participant has been forced to urgently create its own data representations, despite the need for a consistent representation as industry infrastructure grows.

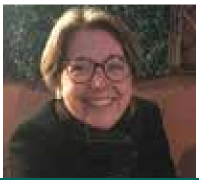
Recognising the need to act, ICMA launched the GMRA clause taxonomy and library project in October 2021 – seeking to explore the benefits of (i) cataloguing GMRA clauses and their negotiated business outcomes; and (ii) developing a library of model wordings that could be used to draft for such outcomes in a standardised manner across market participants. This project commenced with a review of ten GMRA clauses to establish the ability of such work to drive consistent wording across the industry in repo documentation, improve the efficiency of the documentation process and assist with the management of legal agreement data.

The project has been a great success based on wide engagement from ICMA members, recognising the benefits of a new operating paradigm that is suitable for the digital world. The industry has started to create the necessary building blocks to realise this vision. However, this of itself does not achieve many of its goals until the completion of this effort across all of the clauses of the GMRA.

A strategy paper was published in May, outlining the work undertaken so far on the GMRA clause taxonomy and library project, scoping out the work that remains, and highlighting the role market participants need to play in terms of next steps. We urge all members to share their ideas and input into this transformational project in order to build on the key role GMRA documentation plays in repo trading. This is the time to embrace the enhanced benefits of a digital documentation approach to the GMRA.

Please contact legal@icmagroup.org for further information.

Diversity and inclusion measures at the Bank of England



Sarah Breeden, Executive Director, Financial Stability Strategy and Risk at the Bank of England

interviewed by **Katie Kelly**, Senior Director, ICMA

Introduction

For this edition of the ICMA Quarterly Report, I had the pleasure of speaking to Sarah Breeden, Executive Director, Financial Stability Strategy and Risk at the Bank of England. Sarah explained how the Bank is working to create an inclusive culture, and she offers advice for those on a similar journey.

Welcome, Sarah, and thanks for speaking to me.

By way of context, the overall theme of diversity and inclusion (D&I) has evolved significantly over the years - how do you see and define D&I overall?

In my view, D&I is all about creating an environment where the best decisions can be made and where we have access to the best talent. And fundamentally, I think that, when we talk about D&I, "inclusion" comes first. Fostering inclusivity is more likely to attract the best talent, by creating an environment where every one of us can be the best version of ourselves, where we can all thrive and where we can all reach our potential. On this thinking, "diversity" would be our measure of success: if we have been successful in creating an inclusive environment, diversity should naturally follow.

Another aspect is the regulatory impetus – regulators want to create an environment where a range of *different* views can be shared, and so active debate is promoted. If we all look the same, think the same and come from the same backgrounds, then we are likely to make the same decisions and make the same mistakes. Different perspectives will almost certainly lead to better business decision making. Inclusion is key to this too.

D&I can be difficult to meaningfully identify and measure. What are the Bank of England's approaches to promote equality and diversity, and how have you measured and managed progress in achieving your chosen corporate culture?

You can measure outcomes in terms of having a diverse-looking workforce, but it is hard to measure *culture*. At the Bank, we use three tools to measure and to make progress: targets, action plans and staff surveys.

We have set public diversity targets for gender and ethnicity (the latter built on a review into ethnic D&I commissioned by the Bank's Court – our governors and non-executive directors – that was published in September 2020[1]). We also measure other outcomes that are consistent with having an inclusive culture – for instance, being a top Stonewall employer[2] is another target for us.

In terms of gender diversity, we currently have 34% of females in senior positions, but our target is 40-44% by 2028, which is high relative to targets set by some others but there is no reason why we shouldn't stretch ourselves to achieve that, or more. Our ethnicity target for senior leaders is 18-20%, from the current 12%.

We give a lot of thought to initiatives which will support our achieving these targets, linking our ambitions to actual action plans. For instance, when I became executive sponsor of our LGBTQ+ Network, it occurred to me that LGBTQ+ is perhaps a more opaque, hidden aspect of D&I, and yet one which is increasingly important in the workforce. Mindful of this, I launched the Out & Proud Charter[3] at the Bank, which complements other Charters we are signed up to, such as the Women in Finance Charter, the Race at Work Charter and

1. Court Review of Ethnic Diversity and Inclusion | Bank of England
2. The Full List: Top 100 Employers 2022 (stonewall.org.uk)
3. Bank of England Out and Proud Charter

the Disability Employment Charter. I have also encouraged others to adopt this Charter, or one similar to it, for the benefit of LGBTQ+ D&I in other workplaces. The five principles set out in the Out & Proud Charter, and the action plan that sits underneath it, have driven massive improvements at the Bank.

We encourage our employees to take part in staff surveys so we can measure how they feel about the culture at the Bank; in doing so, we aim to ensure that employees understand that their participation and views will help us to measure our progress on our D&I journey, thereby embedding trust and confidence that we want them to feel included, and to be able to develop and reach their full potential. Results of staff surveys are broken down and the results viewed through different lenses, such as LGBTQ+, ethnicity, gender, people with disabilities, parents etc. This allows us to spot what the challenges are, and what the successes are, for everyone.

Drafting and implementing inclusive policies to cover all elements of diversity can make it a difficult topic for employers to approach. What advice do you have for those struggling with their equality/diversity policy?

In terms of getting it right, I think leading purely on the differences between individuals, risks excluding or even perhaps alienating people, but changing behaviours so that we are all mindful and respectful of others makes it less likely we will trip up. So, leading with inclusion – including beyond protected characteristics – to broaden the scope and create a level playing field where everyone can thrive, will help to avoid mis-steps. Diversity should then follow organically.

It is clear that diversity transcends just gender and ethnicity. Do you think enough firms are thinking in broader terms, or does the scope of D&I tend to be too narrow?

I think that everyone is on a journey, and it is clear that there is still a long way to go. The Bank, the Prudential Regulatory Authority and the Financial Conduct Authority published the White Paper on diversity & inclusion last year[4] in order to catalyse progress in the City. The responses to that paper show that firms are in very different places – some are just starting to think beyond gender and ethnicity, while others are much further along on their journey. Some have a much more sophisticated approach than others. But the overall conversation is much more sophisticated and nuanced now than it was 10 years ago, which shows great progress.

Implementing diversity ultimately requires a pool of diverse talent that often we just don't see in financial markets. What do you suggest we do about this?

I would suggest that we look in different places; that we be more creative in our search. And if we can't find the talent, we should go further down the chain and build it.

That can include going into schools speaking to students to help them to raise their ambitions. The Bank has published a book – *Can't We Just Print More Money?* – which will be stocked in the libraries of every secondary state school in England, and aims to lift the veil on the City and the Bank of England, all of which should help encourage interest, and increase the pool of talent, in financial services.

Another option is to offer work experience to students who might not otherwise have connections in the City. Apprenticeships and degree apprenticeships can also be very successful. Not everyone wants to go to university these days; indeed, to have chosen not to can show real determination.

Ultimately, an inclusive environment where individuals can be themselves will ensure we get the best version of the individual, not someone whose energy is being directed at fitting in.

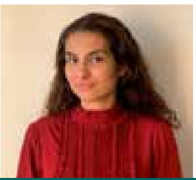
What kind of conversation do you hope we'll be having on D&I in 10 years' time?

The definition of success in D&I has got to be that we are *not* talking about it, because it has become so embedded that it is part of everyone's day jobs and is backed up with supporting infrastructure and policies. So it would be great if we didn't need to have this conversation at all in 10 years' time!

Contact: Katie Kelly
katie.kelly@icmagroup.org

4. DP21/2: Diversity and inclusion in the financial sector - working together to drive change (fca.org.uk)

Investing in EM Womenomics



By **Teresa Alves, Sara Grut,** and **Kamakshya Trivedi,** Goldman Sachs

Recent years have seen a surge of interest in investing for social and environmental impact, including across emerging markets. One aspect of social impact investing concerns the role of women in the economy, or Womenomics, a theme our Japanese portfolio team first wrote about in 1999. Since then, the Goldman Sachs (GS) Global Investment Research division has also looked at Womenomics within Europe and Black Womenomics.

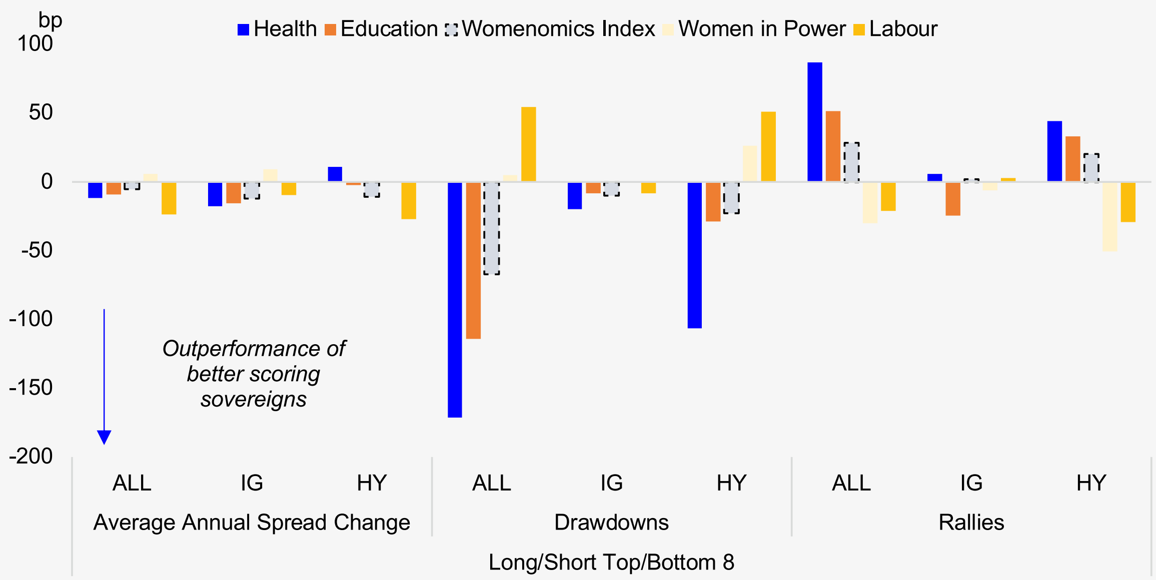
This led us to ask whether there is also a role for investing in this theme in emerging economies in the context of the emerging market (EM) sovereign USD bond market. To address this question, we have constructed a GS Womenomics Index (scaled between 0 and 10) with an annual frequency across 72 EM sovereigns in the EM sovereign credit universe, based on five factors: Education, Labour, Agency, Women in Power and Health. Generally, the Index shows that conditions have improved for women in emerging markets over the years, though they still lag developed markets significantly; our results are similar to the findings of other indices constructed for the same purpose. For example, around 85% of women in EM now have a primary education and 50% have attended an upper secondary school, but this compares to 98% of women in developed markets (DM) attending primary school and 76% with an upper secondary education. Within emerging markets, the Middle East often lags other regions in our Index, with a relatively low share of female-to-male labour force participation and women in parliament, and few laws in place to protect women's rights. Conversely, EM Europe records the most equal outcomes for women, driven by the number of laws in place to protect women's rights and better health and education outcomes.

To assess how investing based on Womenomics can impact investment returns, we have (i) looked at how our GS Womenomics Index correlates with sovereign ratings and USD bond spreads, and (ii) back-tested long-short baskets of the USD bond spreads of the eight highest- and lowest-scoring countries based on our GS Womenomics Index ranking and its five sub-components. On the first point, we found that sovereigns that score higher on gender equality tend to have higher ratings and tighter spreads. There are, however, exceptions within the subcategories, with an almost negligible correlation between ratings and Women in Power or Labour.

Turning to potential investment strategies, we looked at the performance of the long-short baskets mentioned above across the entire universe of EM sovereigns and also within the Investment Grade (IG) and High-Yield (HY) segments of the asset class, to control for a potential rating and spread bias. Each of the strategies is based on spread changes, as opposed to total returns, thereby netting out any impact from duration, which may impact performance in any given year. The investment baskets are turned at the beginning of every year, as new data enters the annual index, and exclude defaulted sovereigns and smaller credits with persistent idiosyncratic risks. The exhibit below presents the summary statistics, showing the average annual spread performance between 2014 and 2021, and how this differs in risk-off and risk-on episodes. We generally found that investing based on higher-indexing Womenomics countries would have outperformed over time by ~5bp each year. For the overall basket (named "ALL"), most of this outperformance would have come during drawdowns (~67bp), consistent with our findings that higher-scoring countries also have higher ratings. However, we find a similar pattern even when controlling for ratings (ie within IG and HY), though the magnitude of the outperformance during drawdowns is smaller. There is also a similar pattern within almost all of the categories of our Womenomics ranking, suggesting that even if investors choose to focus only on certain aspects of gender equality, they are likely to see an outperformance over time. Across the factors, we find that Health and Education exhibit the strongest "flight to quality", whereby most of the outperformance comes from protection during drawdowns. Conversely, Women in Power and Labour tend to be higher beta in nature, especially within HY, where they lead to outperformance in rallies and underperformance during drawdowns. This is consistent with our finding above that both Labour and Women in Power have no significant correlation with sovereign ratings, and suggests that focusing on various aspects of gender equality within the sovereign investment space can offer some diversification of risks within the portfolio.

The broad conclusion that investing in Womenomics can protect portfolios in drawdowns, albeit at the cost of some performance in rallies, is in line our results for investing based on broader ESG themes. Essentially, these themes appear to capture a dimension of "quality" that is not easily picked up in conventional ratings, and can provide greater resilience to portfolios against shocks and drawdowns, and be a way to invest for impact.

Focusing on various aspects of gender equality within the sovereign investment space can offer some diversification of risks within a EM sovereign credit portfolio



Notes: Exhibit shows the average returns of a long/short strategy of the top/bottom 8 sovereigns within each factor since 2014

Our back-testing excludes Agency, where by construction the highest-/lowest-scoring countries are too small to get any robust signal for a long/short investment strategy over time

Source: Bloomberg, Goldman Sachs Global Investment Research

Summary of practical initiatives by ICMA

The purpose of this section of the ICMA Quarterly Report is to summarise recent and current practical initiatives by ICMA with – and on behalf of – members.

Primary markets

1 *ICMA Public Sector Issuer Forum:* At its meeting at the EBRD in London on 20 June 2022, the Public Sector Issuer Forum discussed the impact of the war in Ukraine on the international economy and monetary policy. The agenda also included an update on sustainable finance.

2 *EU and UK prospectus regimes:* As a result of regulatory divergence between the EU and the UK since Brexit, ICMA is engaging on forthcoming changes to the prospectus regimes in both the EU and the UK.

3 *Hong Kong SFC Code of Conduct:* Following bilateral engagement with the SFC and SFC's subsequent publication of FAQs, ICMA is working with members on the practical aspects of implementing the Code requirements ahead of it becoming effective on 5 August 2022.

4 *IOSCO retail consultation:* On 20 May 2022, ICMA submitted a response to IOSCO's Retail Market Conduct Task Force Consultation Report.

5 *ICMA Primary Market Handbook:* ICMA has made minor changes to certain introductory sections and endnotes in the standard language appendices of the ICMA Primary Market Handbook in order to reflect recent UK FCA guidance on the UK PRIIPs Regulation.

6 *Common Data Dictionary:* ICMA has established a Common Data Dictionary Working Group with the objective of promoting STP and interoperability within the primary issuance process. The initial focus of the group is to reach agreement on a standardised list of basic fields/terms related to vanilla bond term sheets.

Secondary markets

7 *CSDR mandatory buy-ins:* Following the successful outcome of ICMA's campaign, supported by the industry, in opposing mandatory buy-ins under the CSDR, ICMA responded by the deadline of 26 May 2022 to the European Commission's consultation on its proposed revisions to the CSDR. In its response, ICMA also requested alleviation of cash penalty requirements in the context of primary settlements owing to time-zone considerations.

8 *CSDR cash penalties: secondary markets:* Following publication of ICMA FAQs and *Best Practice Recommendations on CSDR Cash Penalties* to support implementation in the international bond and repo markets. ICMA's CSDR Settlement Discipline Working Group is monitoring implementation and will be updating guidance as the new regulatory regime beds in.

9 *MiFID II bond market transparency regime:* ICMA is engaging with the European Commission, Council and Parliament members on the *ICMA Proposal for a New Post-Trade Transparency Regime for the EU Corporate Bond Market* in support of a bond consolidated tape.

10 *IOSCO Corporate Bond Market Liquidity:* ICMA has continued to engage with IOSCO in its work on corporate bond market liquidity during the COVID-19 market turmoil, both through the SMPC and in ICMA's capacity as Chair of the AMCC Bond Market Liquidity Working Party. ICMA has also responded to IOSCO's April 2022 discussion paper, *Corporate Bond Markets – Drivers of Liquidity During COVID-19 Induced Market Stresses.*

11 *ICMA Secondary Markets Update:* ICMA's Secondary Markets Update is published on a monthly basis. Sign up to receive it (ICMA members only).

Repo and collateral markets

12 *Repo and collateral governance:* ICMA is in the process of reviewing the governance of ICMA's repo and collateral constituency to allow the participation of all ICMA member firms active in this market and simplify the governance of the European Repo and Collateral Council (ERCC).

13 *ERCC Annual General Meeting:* The ICMA ERCC's 2022 Annual General Meeting was held on 26 April as a two-hour virtual event.

14 *Settlement efficiency:* Following the publication of the ERCC discussion paper on *Settlement Efficiency*, a number of related best practice recommendations have been published in the ICMA *Guide to Best Practice in the European Repo Market* as well as being adopted by the ICMA SMPC. Further follow-up is being considered.

15 *Repo and sustainability:* ICMA's Task Force on Repo and Sustainability is a joint group with representatives from both the ERCC and the Green & Social Bond Principles. The objectives of the group are to promote dialogue around

repo and sustainability and to develop guidance or market best practices, as needed.

16 *ERCC Buy-side Repo Workshops*: ICMA is holding a series of repo buy-side workshops to discuss: different uses and relative importance of the repo market; challenges in accessing the repo market and possible alternatives; and potential solutions to improve access. Based on the workshops, the ICMA ERCC plans to develop a white paper, which could provide a platform for regulatory and broader industry engagement.

17 *ECB AMI-SeCo:* The ERCC is represented on the ECB's Advisory Group on Market Infrastructure for Securities and Collateral (AMI-SeCo) and is playing an active role on its Collateral Management Harmonisation Task Force (CMH-TF).

18 *SFTR public data:* ICMA continues on a weekly basis to collect, aggregate and publish the Securities Financing Transaction Regulation (SFTR) public data released by the trade repositories (TRs), covering both UK SFTR and EU SFTR.

19 *ICMA Asia-Pacific repo market report:* ICMA is preparing a report on developed and emerging repo markets in Asia-Pacific by jurisdiction, with summaries of regulatory landscape, infrastructure, market size and liquidity, and relevant law and regulation.

20 *Joint ICMA-CCDC repo initiative:* Under the UK-China Economic & Financial Dialogue, ICMA and CCDC have established a joint working group on repo with the aim of publishing a white paper by the end of 2022 to promote the use of RMB bonds as collateral in the global repo market.

21 *GMRA clause library project:* Phase 1 of the ICMA GMRA clause library project to digitise market standard agreements has been completed.

22 *ICMA ERCC Repo and Collateral Newsletter:* The ICMA ERCC Repo and Collateral Newsletter is published on a monthly basis. Sign up to receive it (ICMA members only).

Short-term markets

23 *Commercial paper:* ICMA has requested expressions of interest from the Commercial Paper and Certificates of Deposit Committee on forming a task force to consider ways of improving the transparency of the commercial paper market.

24 *Commercial paper and sustainability:* ICMA has conducted a market survey on sustainable commercial paper, the results of which are expected to inform the content of potential guidance, complementary to the Green Bond Principles.

Sustainable finance

25 *Annual Conference of the Principles:* The Annual Conference of the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and Sustainability-Linked Bond Principles was hosted by the EBRD in London on 28 June 2022. The Principles are referenced by 98% of sustainable bond issuers internationally and have become the voluntary global standard of the market. See the Sustainable Finance section of this Quarterly Report.

26 *Proposed EU Green Bond Standard:* ICMA published on 22 June 2022 an updated paper which provides ICMA's views evaluating both the positive aspects and issues of concern regarding the current state of the proposed EU Green Bond Standard.

Asset management

27 *AMIC Excom:* The ICMA Asset Management and Investors Council Executive Committee (AMIC Excom) met on 15 June 2022 to discuss a presentation on the global outlook for asset management; on fixed income markets; and updates on sustainable finance, the AIFMD an ELTIFs and the MMFs.

28 *Covered bonds:* AMIC held its annual Covered Bond Conference with the *Covered Bond Report* in Frankfurt on 30 June 2022.

29 *AIFMD:* In conjunction with the AMIC and the ICMA Brussels office, ICMA has engaged with Council members in the EU on the impact of the AIFMD on fund management delegation, liquidity management tools and reporting and proposed targeted amendments.

30 *Money Market Fund Regulation:* On 12 May 2022, ICMA responded to the European Commission's targeted consultation on the Money Market Fund Regulation.

31 *AMIC updates:* ICMA publishes an AMIC Regulatory Update newsletter and market update podcast on a monthly basis. Sign up to receive the AMIC Regulatory Update (ICMA members only).

FinTech in international capital markets

32 *CDM:* Phase 2 of the ICMA project on the Common Domain Model (CDM) for repo and bonds has now been launched. Phase 2 is designed to enable member firms to automate transaction management, with a focus on open, floating rate and evergreen repos. A CDM video explainer as well as CDM factsheets, amongst other materials, are available on ICMA's website.

33 *FinTech Advisory Committee (FinAC):* Members have agreed on strategic priorities, including the creation of new working groups for the Common Data Dictionary (CDD) initiative and Blockchain Bonds to explore market guidance and "demystify" digital securities.

34 *Blockchain Bonds Working Group:* ICMA's new Blockchain Bonds Working Group has three objectives: (i) provide a forum for discussion on how to support liquidity in blockchain bonds, focusing on operational, legal and regulatory aspects; (ii) "demystify" blockchain bonds, notably through an FAQ document, and (iii) respond to official sector consultations.

35 *ECB questionnaire on wholesale CBDC*: ICMA responded to the ECB's questionnaire on financial market stakeholders' potential interest in the Eurosystem providing euro central bank money settlement of wholesale transactions in the payments, securities settlement and collateral management domains using new technologies such as DLT.

36 *FinTech regulatory roadmap:* ICMA continues to update its FinTech regulatory roadmap, highlighting relevant developments in prospect over the next few years. The timeline draws upon key milestones presented by regulators and national authorities and is broken down by national, EU and global initiatives.

37 *New FinTech applications in bond markets:* ICMA continues to update its tracker of distributed ledger technology and artificial intelligence/machine learning applications in capital markets, with a focus on bond markets. The tracker currently lists more than 80 announcements.

38 *DLT regulatory directory:* ICMA continues to update its DLT regulatory directory, covering regulatory and legislative developments, national blockchain initiatives, publications and consultation papers. The directory seeks to provide a non-exhaustive overview of developments in selected jurisdictions across Europe, North America, and Asia-Pacific and is available here.

39 *FinTech Newsletter:* ICMA's FinTech Newsletter is published on a monthly basis and includes updates on ICMA's various FinTech resources, amongst others. Sign up to receive it (ICMA members only).

Transition from LIBOR to risk-free rates

40 *Bond Market Sub-Group terms of reference:* Following a smooth transition in the sterling bond market from panel bank LIBOR to synthetic LIBOR over the New Year, the Bank of England and the FCA have revised the terms of reference for the RFR Bond Market Sub-Group, chaired by ICMA, to include the transition of legacy US dollar LIBOR bonds to risk-free rates in UK markets under English law. ICMA has also been asked to join the new UK RFR Steering Group, which includes the Bank of England and the FCA.

41 *Communication with members:* ICMA continues to keep members up to date with its work on the transition to risk-free rates via a dedicated webpage, the ICMA Quarterly Report, regular ICMA committee and working group meetings, podcasts and e-mails to the ICMA Benchmark Group. ICMA is also coordinating with other trade associations.

42 *LIBOR transition event:* ICMA recorded a webinar entitled *LIBOR Transition: Bond Market Update* for the MENA, South Africa and Latin America regions in May 2022.

Other meetings with central banks and regulators

43 *ICMA Regulatory Policy Committee (RPC):* John Berrigan, Director General of DG FISMA in the European Commission, held a discussion with members of RPC on 28 April 2022.

44 *Bundesbank/ICMA meeting:* On 17 May, Bryan Pascoe led an ICMA team including some Board members and Chairs of Committees to discuss market resilience and sustainable finance with the Bundesbank.

45 *Other official groups in Europe:* ICMA is represented, through Bryan Pascoe, on the ECB Bond Market Contact Group and, through Martin Scheck, on the ESMA Securities and Markets Stakeholder Group; through Nicholas Pfaff on the European Commission Platform on Sustainable Finance; through Charlotte Bellamy on the Consultative Working Group on ESMA's Corporate Finance Standing Committee; through Alexander Westphal on the Consultative Working Group of ESMA's Post-Trading Standing Committee; and through Gabriel Callsen on the Data Standards Committee of the Bank of England and FCA joint transformation programme for data collection from the UK financial sector.

Key ICMA regulatory policy messages


by **Julia Rodkiewicz**
and **Charlotte Bellamy**

ICMA is engaged with a wide range of policy makers and regulators in cooperation with our members. Our key messages and information for the regulatory initiatives on which we are most actively engaged with policy makers and regulators are summarised below. Information on other regulatory initiatives on which ICMA is focusing can be found elsewhere in this Quarterly Report.

Contacts: Julia Rodkiewicz and Charlotte Bellamy
julia.rodkiewicz@icmagroup.org, charlotte.bellamy@icmagroup.org

EU Central Securities Depositories Regulation

- **Regulatory initiative:** Review of the EU Central Securities Depositories Regulation (CSDR).
- **Key issues:** Settlement discipline (SD), including revised mandatory buy-in (MBI) proposal.
- **Key messages:** ICMA cautions against imposing an MBI regime, particularly for bond markets. Penalties should first be allowed time to run and possibly be recalibrated. In parallel, other measures to improve settlement efficiency should be exhausted in the first instance (either market-based or regulatory, eg auto partialling, auto borrowing and lending facilities). If MBIs are implemented, this should be through market regulation, not post-trade regulation. The Level 1 CSDR text should exempt Securities Financing Transactions (SFTs) from the buy-in process.
- **Legislative stage:** The European Commission's (EC) CSDR review proposal of 16 March 2022 is now being debated by the European Parliament (EP) and the Council of EU Member States (the Council) with a view to agreeing on a final text, possibly in 2023.
- **Recent ICMA engagement and materials:** Meetings with the EC, EP and Council representatives. ICMA published its feedback on the EC proposal on 26 May 2022.

Contacts: Andy Hill andy.hill@icmagroup.org, Lisa Cleary lisa.cleary@icmagroup.org and Alexander Westphal alexander.westphal@icmagroup.org.

Working Group/Lead Committee: CSDR-SD Working Group/Secondary Market Practices Committee (SMPC).

More information: The Secondary Markets section of this Quarterly Report and ICMA's dedicated webpage.

EU MiFIR and UK Wholesale Markets Review

- **Regulatory initiatives:**

  - Review of the EU Markets in Financial Instruments Regulation (MiFIR).

  - UK Wholesale Markets Review (WMR).
- **Key issues:** Pre- and post-trade transparency and consolidated tape for bond markets.
- **Key messages:** ICMA members would like to see the introduction of an effective, appropriately calibrated and dynamic post-trade transparency regime for all bonds, including corporate and sovereign bonds. In particular, large and extra-large illiquid trades should benefit from delayed publication of both price and size to prevent undue risk to counterparties involved. Once deferrals have expired, all bond trades should be published in a centralised consolidated place. Regarding pre-trade transparency, the current obligations are ineffective and potentially counterproductive and should be removed.
- **Legislative stage:**

  - EU: The EC's MiFIR review proposal of 25 November 2021 is now being debated by the EP and the Council with a view to agreeing a final text in 2022 or 2023.

  - UK: On 1 March 2022, HM Treasury (HMT) published its response to the July 2021 WMR consultation. Further HMT and Financial Conduct Authority (FCA) proposals are expected in 2022.
- **Recent ICMA engagement and materials:** Meetings with representatives of the EU and UK institutions. ICMA published a position paper on post-trade transparency on 8 December 2022. ICMA published feedback to the EC's proposal on 22 March 2022. ICMA published its response to HMT's WMR on 24 September 2021.

Contact: Elizabeth Callaghan elizabeth.callaghan@icmagroup.org.

Working Group/Lead Committee: MiFID II/R Working Group (MWG) Transparency Taskforce/Secondary Market Practices Committee (SMPC).

More information: The Secondary Markets section of this Quarterly Report.

EU Alternative Investment Fund Managers Directive and EU European Long-Term Investment Fund (ELTIF) Regulation

- **Regulatory initiatives:** Reviews of:

  - EU Alternative Investment Fund Managers Directive (AIFMD).

  - EU European Long-Term Investment Fund (ELTIF) Regulation.
- **Key issues:**

  - AIFMD: Liquidity management tools, delegation, loan originating funds and reporting.

  - ELTIF: Funds of funds, illiquid assets ratios, securitisation exposure, "green" ELTIF category.
- **Key messages:**

  - AIFMD: ICMA's Asset Management and Investors Council (AMIC) in general welcomes the EC's targeted review of the AIFMD and supports the Council's and EP's proposals for recognising the critical risk management responsibilities that should remain with Alternative Investment Fund (AIF) managers. However, there are several outstanding concerns regarding shareholder loans, leverage cap limits for loan originating AIFs and proposals for duplicating existing UCITS reporting requirements.

- ELTIF: ICMA's AMIC generally welcomes the positions adopted by both the Council and EP, especially with respect to the proposals to raise the market capitalisation threshold further and the additional derogation allowing for open-ended ELTIFs. AMIC is monitoring the draft proposals to include sustainability-related disclosures, cautioning against duplicative or inconsistent requirements as compared to the EU Sustainable Finance Disclosure Regulation (EU SFDR) and EU Taxonomy Regulation (the EU Taxonomy).

- **Legislative stage:** EC's AIFMD and ELTIF review proposals of 25 November 2021 are now being debated by the EP (AIFMD draft report and ELTIF draft report and draft amendments) and the Council (AIFMD and ELTIF positions), with a view to reaching an agreement, possibly over the course of the first half of 2023 for AIFMD and probably earlier for ELTIF.
- **Recent ICMA engagement and materials:** Meetings with representatives of the EC, EP and Council. ICMA AMIC's responses to the EC's proposals on AIFMD and ELTIF were published in January 2021

Contacts: Irene Rey irene.rey@icmagroup.org and Kyra Brown kyra.brown@icmagroup.org.

Working Group/Lead Committee: AMIC Risk Management Working Group/AMIC Executive Committee.

More information: The Asset Management section of this Quarterly Report.

EU Green Bond Standard

- **Regulatory initiative:** EU Regulation on European green bonds (EU GBS) proposal.
- **Key issues**: The nature of the standard (voluntary vs. mandatory), extension of scope to other sustainable bonds, additional and entity-level transparency requirements, liability risks and legal costs, taxonomy alignment and usability, grandfathering, and external reviewers.
- **Key messages:** ICMA expresses strong support for a voluntary standard and full grandfathering of Technical Screening Criteria alignment to maintain the stability of the EU GBS designation. There are concerns regarding (i) increased legal liability and costs creating significant disincentives for issuers, (ii) Taxonomy usability issues, (iii) unintended barriers to financing of Taxonomy aligned CapEx plans; (iv) mandatory requirements for all green use of proceeds bonds and environmental sustainability-linked bonds which duplicate entity-level requirements under other EU sustainable finance regulation and create implementation challenges.
- **Legislative stage:** The EC's EU GBS proposal text of 6 July 2021 is now being debated by the EP (report) and the Council (position) with a view to reaching an agreement on a final text possibly over the course of the second half of 2022.
- **Recent ICMA engagement:** Meetings with representatives of the abovementioned EU institutions. ICMA published a note analysing the EP's report and Council's position on 22 June 2022. See also ICMA's publication on Ensuring the usability of the EU Taxonomy of 14 February 2022, which is relevant to the link between the EU GBS and the EU Taxonomy.

Contacts: Nicholas Pfaff nicholas.pfaff@icmagroup.org and Ozgur Altun ozgur.altun@icmagroup.org.

More information: The Sustainable Finance section of this Quarterly Report**.**

EU and UK Prospectus Regulations

- **Regulatory initiatives:**
  - EU Prospectus Regulation review (part of the EC's Listing Act consultation, which also covers other matters including the EU Market Abuse Regulation, the EU Transparency Directive and the EU Listing Directive).
  - UK Prospectus Regime review.
- **Key issue:** Appropriately calibrated EU and UK prospectus regimes allowing smooth and efficient cross-border bond issuance in Europe.
- **Key messages:** Wholesale bond markets in Europe currently function reasonably efficiently under the current EU and UK Prospectus Regulations, and this must be preserved. In relation to retail bond markets and SME bond markets, regulation is only one factor among various other commercial and market drivers. Constructing an appropriate regulatory regime would require a holistic consideration of various regulatory tools and incentives.
- **Legislative stage:**
  - EU: The EC consultation of 19 November 2021 is expected to be followed by a legislative proposal before the end of 2022.
  - UK: HMT published the outcome of its consultation in March 2022 and announced that the UK Government will replace the regime currently contained in the UK Prospectus Regulation and will legislate to do so when parliamentary time allows.
- **Recent ICMA engagement:** Meetings with the EC, certain EU national competent authorities (NCAs), EU Ministries of Finance, HMT and FCA have taken place or are anticipated for the coming months.

Contact: Charlotte Bellamy charlotte.bellamy@icmagroup.org.

Working Group/Lead Committee: Prospectus Regulation Working Group / Legal & Documentation Committee.

More information: On the EU Prospectus Regulation, see ICMA's response and key points from ICMA's response to the EC's Listing Act consultation. On the UK Prospectus Regulation, see ICMA's article on the UK Prospectus Regulation review outcome.

EU Capital Requirements Regulation 3

- **Regulatory initiative:** Review of the EU Capital Requirements Regulation (CRR), the so-called CRR3 proposal, which is a part of a broader review of EU prudential rules for banks.
- **Key issue:** Capital treatment of Securities Financing Transactions (SFTs).
- **Key message:** ICMA advocates for the recognition of the short-term nature of SFT transactions in Risk Weighted Assets calculation under the standardised approach with respect to banks' counterparty credit risk exposures to non-banks.
- **Legislative stage:** The EC's CRR3 proposal of 27 October 2021 is now being debated by the EP (draft report) and the Council with a view to agreeing on a final text, possibly in 2023.
- **Recent ICMA engagement:** Outreach to key representatives in both Council and EP.

Contacts: Andy Hill andy.hill@icmagroup.org and Alexander Westphal alexander.westphal@icmagroup.org.

Working Group/Lead Committee: European Repo and Collateral Committee (ERCC).

EU and UK Money Market Funds Regulations

- **Regulatory initiative:**

  - EU: Review of the EU Money Market Funds (MMF) Regulation.

  - UK: Review of the UK Money Market Funds (MMF) Regulation.

- **Key issues:**

  - EU: MMF market structure and resilience.

  - UK: ICMA is considering its position.

- **Key messages:**

  - EU: ICMA highlights the unintended consequences of changes to certain MMF structures. In addition, ICMA suggests a shift of focus towards strengthening the efficiency and resilience of the underlying market, noting ICMA's *The European Commercial Paper and Certificates of Deposit Market White Paper* of 2021.

  - UK: ICMA is considering its response to the discussion paper mentioned below.

- **Legislative stage:**

  - EU: Following the EC's consultation of 12 April 2022 on the functioning of the MMF Regulation, its report is expected in summer 2022.

  - UK: The Financial Conduct Authority, jointly with the Bank of England, released a *Discussion Paper on Resilience of MMFs* on 23 May 2022 (with the 23 July 2022 deadline to respond), in advance of a potential formal consultation in the future.

- **Recent materials:** On 13 May 2022, ICMA responded to the EC's consultation.

Contact: Katie Kelly katie.kelly@icmagroup.org.

Working Group/Lead Committee: Commercial Paper and Certificates of Deposit Committee (CPC).

More information: The Asset Management section of this Quarterly Report.

The ICMA Committee of Regional Representatives (CRR)

Speech by **Chris Muyldermans,** KBC Bank, CRR Chair and member of the ICMA Board, at the ICMA AGM in Vienna, 9 June 2022

The role of the CRR

First, a few words about the CRR and the important role it has within the Association.

The ICMA membership is organised into 16 geographical regions. Each region has its own regional committee of members which deals with specific regional concerns. The CRR consists of the chairs of these regional committees.

The CRR has a unique and vital role at ICMA:

- It offers a strong link to the regions and to the majority of smaller members who are not represented at Board level.
- It acts as a local source of intelligence on market practice issues and regulatory changes.
- It represents continuity since the CRR is a seasoned and experienced group of market professionals, some of whom have a long-standing involvement with the Association.
- The depth of the local committee structure is another unique feature of the CRR and ICMA's organisational network.

In summary, the CRR makes an important contribution to keeping ICMA "on-track" and responsive to its members' needs in terms of market and regulatory developments, it is well positioned to give swift and informed feedback to the Board and ICMA leadership team and it is extremely useful for individual networking.

We have recently had discussions resulting in proposals for enhancing the communications between the Board and the CRR, which we hope will reinforce a heightened sense of mutual accountability between the regions and the main Board and provide a clearer line of sight across the organisation.

Report on the year

It goes without saying that the last year continued to present challenges – however, the CRR has continued to meet regularly every quarter. I am pleased to report that these meetings were very well attended and were forums for lively interactive discussion.

Regionally it has been an important year even though somewhat low key due to meetings and events being mostly virtual.

As you have heard we continued to add new members since the last AGM – in APAC, Austria and surrounding countries, Germany, Iberia, Italy, Netherlands, Nordics, UK, US and Africa.

Notably APAC added six new members and the UK 11.

Sadly, we had to suspend our Russian members as a result of sanctions – we must hope for a resolution of this situation.

We have had very few resignations this year. We have put in a great deal of work at the CRR into meeting with members at regional level and keeping them engaged with the Association. This has paid off.

All regions have continued to meet this year, and some were even lucky enough to have a physical meeting: eg the Switzerland & Liechtenstein region, Nordic region, France & Monaco region and the recent event In MENA on *Dynamics and Developments in the International Sustainable Bond Markets.*

We look forward to resuming an in-person events schedule in the regions in the second half of 2022.

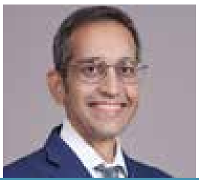
Conclusion

In conclusion, the CRR continues to be an accessible, well organised, expert and essential channel for communication in both directions between the membership and the Board and Leadership team. ICMA has performed strongly this year in the face of difficult circumstances and market conditions – enjoying strong support from its growing membership.

You have just heard from the Chief Executive about preparations and consultation of the members on the fee proposal which will start as soon as this Vienna meeting concludes. The CRR looks forward to being an active part of these discussions and helping to find the way forward to create a strong, successful, and well-funded Association, fit to support its members and the industry in future.

Primary Markets



by **Ruari Ewing, Charlotte Bellamy, Katie Kelly and Mushtaq Kapasi**

Mid-cap bond markets in Europe

Introduction

Facilitating access to finance for SMEs has been a global policy goal for some time[1] and is considered to be increasingly important in the wake of the pandemic, the economic shocks stemming from the war in Ukraine and the challenge of accelerating the green transition[2]. In the EU, broadening access to market-based sources of financing for European companies at each stage of their development is at the heart of the Capital Markets Union initiative[3].

While bond markets may not be an appropriate financing option for all SMEs (in particular at the smaller end of the spectrum), they can play an important role in the diversification of financing sources for mid-cap companies, offering flexibility in terms and structures and no dilution of control.

In this context, in June 2022, ICMA gathered a group of market participants representing banks, investors, law firms and stock exchanges from across Europe to identify opportunities to increase mid-cap (or "sub-benchmark") issuers' access to cross-border bond markets in Europe.

This article summarises the current landscape and challenges to developing cross-border activity in mid-cap/sub-benchmark bond markets in Europe, and then outlines some areas that may be worth considering further.

Current landscape

There are a range of existing, complementary bond or bond-style markets available to mid-cap/sub-benchmark issuers in Europe (both rated and unrated), with a range of characteristics that offer different advantages and dynamics for issuers.

Many existing markets, such as the Euro Private Placement market, the Italian minibond market, or the Alternative Fixed Income Market (MARF) operated by Bolsa de Madrid, are primarily domestic in nature. A key reason for the prevalence and success of domestic markets is considered to be the importance of proximity between investors and the issuer. Proximity helps investors assess credit because they understand better the issuer's operating environment and business model. Some global institutional investors (including US investors) have established regional offices (eg Paris, Frankfurt or Milan) in order to assess local European credit more easily. In addition, investors may be less inclined to invest internationally in mid-cap debt securities if they are able to achieve appropriate pricing premia via investment in domestic mid-cap issuers' debt securities. Similarly, issuers in some jurisdictions may be able to access the capital they need from convenient domestic institutional investors or bank financing, meaning there is no imperative for those companies to issue debt securities internationally.

Some markets accessed by mid-cap/sub-benchmark companies in Europe are cross-border in nature. The main example is the US Private Placement (USPP) market. The USPP market involves primarily US investors, but recently has involved some European, Canadian and Asia Pacific investors as well. It is now used by issuers from across Europe. Average annual volumes over the past five years are informally estimated by an ICMA member active in the market to be around $19 billion for UK&I issuers and around $8.5 billion for European (ex UK&I) issuers. US investors are reported to have welcomed the opportunity to invest in a broader range of companies in recent years and have taken steps to make the market more attractive for non-US issuers, for example by lending in the issuer's local currency (euro or sterling) and then swapping back to US dollars. USPP investors are understood to have sophisticated credit management processes. Longer maturities (such as 10-12 years) compared to bank financing are available.

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1. See the G20/OECD High Level Principles on SME Financing, 2015, due to be updated this year. Recently, the FSB has highlighted the large number of non-financial companies (in particular SMEs) with debt restructuring needs following the massive public credit provision extended during the COVID-19 pandemic and the OECD has drawn attention to the need for SMEs to be able to access a diverse range of funding options.

2. Preface to *Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard*

3. European Commission Capital Markets Union Action 2 - Supporting access to public markets

The Schuldschein market (a hybrid bond/loan market) is also increasingly international, albeit with a primarily German bank investor base. Informal reports indicate that roughly one third of the market is now comprised of non-German issuers. Annual volumes are informally estimated by an ICMA member active in the market to be between €20 billion and €30 billion. The market is reported to offer optionality for issuers on size and tenor, with medium to long-term maturities being accessible.

Whilst most existing markets have a legal mechanism for risk transfer, a common feature is that they are typically illiquid and most investors buy and hold.

Challenges to developing cross-border activity

There are considered to be several challenges to developing cross-border activity in mid-cap/sub-benchmark bond markets in Europe.

In addition to the importance of proximity between investors and the issuer outlined above, a key issue for bond markets is competition from the relatively successful loan markets in Europe. Mid-cap/sub-benchmark issuers are often able to access loans easily, quickly and with attractive pricing in Europe, meaning there is lower issuer demand for bond market financing. The easy availability and competitive pricing of bank loans[4] in Europe is reportedly due to a number of factors including: (a) monetary policy measures that have incentivised banks to lend directly to companies[5]; (b) banks' improved liquidity positions post-financial crisis; and (c) high competition in the European loan market (that includes both local and US banks) compared with the US loan market. In addition, some companies may prefer loan financing because they may be more familiar with loan processes and documentation and may consider loans to be easier and quicker to access than bond financing.

Another challenge relates to the relatively small sums of money typically required by mid-cap companies. For institutional investors, small issuance sizes may be relatively unattractive given the credit work required. This is exacerbated in a cross-border context where smaller issuers will be less well known to international investors.

Whilst institutional investors are willing to assess the credit of unrated companies, their appetite to invest is reported to be focused primarily on companies with an investment grade profile. This issue may be heightened when the company is based in a different country to the investor, because some investors may feel they need to see a stronger credit to balance their lack of proximity and familiarity with the issuer's jurisdiction. An exception seems to be the infrastructure space, where there can be a broader range of appetite from international investors that can extend to companies with a sub-investment grade profile.

The current fragmentation of different markets for mid-cap/sub-benchmark companies in Europe may be due in part to different approaches to pricing among different types of investors. For example, German bank investors in the Schuldschein market are reported to look to loan market pricing, whereas European institutional investors would expect an illiquidity premium as well as a credit spread above a relevant European bond market benchmark, with the former resulting in more attractive pricing for issuers. US institutional investors in the USPP market will look at an illiquidity premium and credit spread above public US bond markets, which has resulted in attractive pricing for European issuers comparative to local capital markets when it is swapped to euro or sterling.

In addition to different approaches to pricing, investors in different regions may have different due diligence requirements which can impact upon deal timelines. US investors in the USPP market are understood to have sophisticated credit analysis and management processes and deals can happen more quickly when only US investors are involved compared with a deal where there are a mixture of US, European and/or Asia Pacific investors. Combining investors from different regions into one deal can present timeline challenges, but it has been seen on occasion.

In terms of regulatory issues, work by ICMA some years ago, which was supplemented by a 2017 study commissioned by the European Commission and prepared by the Boston Consulting Group (BCG) and Linklaters, did not identify any significant regulatory barriers to the development of private placement markets in the EU. However, it noted that the wide application of the EU Market Abuse Regulation (which was onshored into UK legislation after Brexit) may inform issuers' decisions on whether or not to list their debt securities. Market participants have also highlighted that there is a lack of fiscal incentives across Europe for mid-cap issuers to issue bonds, the lack of harmonisation of insolvency regimes across Europe could impact upon investors' appetite to invest cross-border and the varying definitions of "SME" in different pieces of EU legislation mean that the regulatory regime is complex and fragmented for smaller-sized issuers.

4. The external financing gap for euro area SMEs is reported to be in negative territory (ie available finance exceeds financing needs). See *25th Survey on the Access to Finance of Enterprises (SAFE) in the Euro Area*, April – September 2021, ECB. However, there is reported to be a financing gap for SMEs in the UK. See *Scale Up to Level Up - Final Report for the APPG on Fair Business Banking*, September 2021.

5. Notably the ECB's Targeted Longer-Term Refinancing Operations (TLTROs) providing long-term loans to banks.

Areas for consideration

Whilst some of the challenges outlined above are difficult to address, there are a number of areas that may be worth considering further with a view to supporting the internationalisation of mid-cap/sub-benchmark bond markets in Europe.

A key theme emerging from the discussion with ICMA members was the requirement for, and availability and standardisation of, information for investors on the issuer's credit. Because many mid-cap companies will be unlisted, they may not be familiar with providing the information required by institutional investors, and they may have privacy imperatives. It is important to have a process which provides investors with the information they require (mindful that this will vary between transactions), but is as straightforward and manageable as possible for issuers. It may therefore be useful to consider whether anything can be done to facilitate this process beyond existing industry efforts.

In terms of the structural challenges identified, possible areas to consider include whether or not mutualisation of mid-cap issuers' debt could help to overcome the challenges related to small issue sizes; and whether increased use of public sector support or guarantees could help to increase appetite for investment in companies with a sub-investment grade profile and the issue of the lack of harmonisation of insolvency laws across Europe. It is also worth noting that the European Commission is considering minimum harmonisation of corporate insolvency laws in the EU as part of the Capital Markets Union 2020 Action Plan, which could also help to address investor concerns around lack of proximity.

Given the importance of credit ratings, it may also be worth considering whether there is a commercially-viable or officially-subsidised role that credit rating agencies could play in the development of mid-cap/sub-benchmark bond markets in Europe. In addition, there could be a role for some other form of information intermediary between issuers and investors.

Technological developments may also be relevant. For example, could improvements in technology help credit rating agencies assess SME credit more easily?[6] Could crowdfunding or other forms of funding platforms help to facilitate mid-cap issuers' access to debt investment? If so, how could retail investor protection be assured and are there any regulatory barriers that would need to be considered?[7]

Access to sustainable finance may also be important for some mid-cap/sub-benchmark companies, meaning that the sustainable bond market could be an attractive option.

In terms of regulatory initiatives, it is currently unclear whether EU regulatory initiatives under the Capital Markets Union 2020 Action Plan such as the proposed European Single Access Point (ESAP), the Listing Act, minimum harmonisation of corporate insolvency laws and a financial literacy initiative will play a meaningful role in the development of mid-cap issuer access to cross-border bond markets. For example, the Listing Act has a strong focus on companies' access to equity capital markets, rather than debt capital markets[8]. ESAP is a proposed single point of access to public information about EU companies and EU investment products. The European Commission proposal states that ESAP will allow non-listed entities (including SMEs) to make available information on a voluntary basis, which will facilitate their access to capital. However, it is not clear at this stage when or how this voluntary option will operate, whether mid-cap/sub-benchmark issuers will use it and, if they do, whether this will materially improve their visibility to investors and/or assist investors in analysing their credit in a meaningful way. For example, if a mid-cap/sub-benchmark issuer's accounts are prepared in accordance with a national GAAP with which international investors are unfamiliar, then the availability of those accounts in ESAP might not make a material difference to the appetite of international investors to invest in their debt securities.

ICMA will be considering these points further and would welcome views and suggestions from any interested members.

Contact: Charlotte Bellamy
charlotte.bellamy@icmagroup.org

6. See *How SME Credit Rating Can Unlock Financing For Small Businesses,* SME Finance Forum, December 2019.

7. HM Treasury in the UK has announced that it will remove the current requirement for an FCA-approved prospectus on offers over €8 million in size to be published. Instead, securities will be allowed to be offered to the public provided the offer is made through a platform operated by a firm specifically authorised for the purpose (e.g. an authorised crowdfunding platform). The FCA will determine the rules and disclosure for such platforms. The Government will not exclude overseas private companies from offering securities to the UK public, subject to UK regulation.

8. ICMA responded to the European Commission's targeted consultation on the Listing Act in February 2022 from the perspective of the bond markets.

ESAs' advice on the PRIIPs review

Introduction

1 On 29 April, the ESAs published their advice to the European Commission regarding its review of the PRIIPs regime. This follows the ESAs' October 2021 call for evidence and ICMA's related December 2021 response covered in the First Quarter 2022 edition of this Quarterly Report (at pages 26-28). The ESAs generally encouraged a broad review of the PRIIPs framework and advised on a range of specific aspects.

Whilst ICMA has a focus on retail protection and retail bond markets, ICMA's main priority is that whatever official steps are taken in this respect do not disrupt the institutional/wholesale markets which have been reliably providing trillions in financing to Europe's economy over the years. It is thus #2-7 below that seem of most interest in the context of the ESAs' recommendations – namely ensuring clarity as to what bonds are within PRIIPs scope and as to individual responsibilities for any availability of PRIIPs without a KID to EEA retail investors (and in this respect aligning the PRIIPs regime exemptions with the Prospectus Regulation exemptions). These headline interpretational issues have faced a compounding complication in terms of apparently concurrent regulator jurisdiction under the PRIIPs regime, with the ESAs' advice in this respect, as narrated under #20 below, thus being also of particular interest.

Product scope

2 *More precise specification regarding bonds:* In terms of the product scope of the PRIIPs regime, the ESAs recommended that the scope not be extended but rather that it specify more precisely which types of bonds fall within scope. The ESAs proposed their October 2019 Supervisory Statement as an appropriate starting basis in this respect, though emphasising make-whole clauses should not *per se* result in a bond falling into scope (the Statement was somewhat ambivalent on this point, in noting that such clauses merely "could be" considered as "a separate case") and suggesting the development of a significantly longer non-exhaustive list of products that are in or out of scope.

Such a granular approach to regulatory guidance can give rise to extended complex debate about individual product features and can also be more challenging in terms of future-proofing for new product structures. For example, sustainability-linked coupon step-ups were not included in the Statement with the other event-driven steps that were listed, which should not be seen as intentional since SLBs did not really exist at that time. (The first ever SLB was only issued in the month preceding publication of the Statement and there was no further SLB issuance until around 11 months thereafter.) (In this respect ICMA had historically proposed an alternative, conceptual, approach to product scope guidance and then, at Q.22 of its December 2021 response, proposed specific wording to amend the definition of a PRIIP in the PRIIPs Regulation itself as the most effective approach.) However, an effective adoption by the Commission of the ESAs' advice would still provide some helpful clarity and be consequently welcomed by industry.

3 *Alignment to Prospectus Regulation exemptions:* In terms of specific exemptions, the ESAs recommended that the Prospectus Directive exemption references be updated/aligned to the current Prospectus Regulation (PR). In this respect the ESAs noted that being PR-exempt is an appropriate reference point regarding the relevance of these securities being subject or not to the KID obligations.

This is a welcome endorsement of coherence between PRIIPs and PR exemptions.

4 *Clarifying application to non-financial services companies:* The ESAs also recommended the regime clarify the application of PRIIPs regime scope to non-financial services companies. The ESAs noted seeing both rationale to exclude non-financial services companies from scope and arbitrage risks in so doing, but without providing further detail.

In terms of arbitrage risks, the ESAs may have had in mind that non-financial issuers might issue PRIIPs without a KID. One might however note the risk of an unlevel playing field between vanilla securities issued by non-financial services companies and by financial services companies – if the product scope of the regime is not appropriately clarified as noted in #2 above.

Investor scope and "made available"

5 *Clarification of "made available":* In terms of the investor scope of the PRIIPs regime, the ESAs recommended one clarify or further specify the "made available" concept, which ICMA had previously noted stakeholders were broadly comfortable with. The ESAs noted four possible options in this respect: (i) the UK FCA's recent approach (of retail restrictions combined with a £100,000 minimum denomination); (ii) PR alignment; (iii) a focus on securities that are "not actively marketed" (eg when the subscription period has closed) and (iv) replacing the reference to securities being "made available" with a reference to securities "sold".

ICMA expressed concern regarding the first option, in its September 2021 consultation response (at #14-18), in terms of both regulatory incoherence and potentially worsening (rather than alleviating) uncertainty as to how wide the regime's scope is. ICMA had previously noted the second option as a helpful measure (for legal certainty and regulatory coherence), notably in terms of minimum denominations and (but distinctly) of offers addressed solely to qualified investors. Regarding the third option it is unclear whether the ESAs also had new bond issuance transactions in mind – in which case the regime would not apply where the initial issuance offering excluded retail investors (regardless of subsequent secondary trading patterns). The fourth option does not seem to be a particularly meaningful change (investors are hardly likely to be gifted securities in a mainstream context).

6 *KID prior to any advice or selling:* The ESAs suggested as a minimum that Article 5 of the PRIIPs Regulation be amended to provide that manufacturers publish a KID "before any person can advise on, or sell" the relevant product to retail investors in the EU.

This does not seem to solve uncertainty around the regime's apparently wide scope – because it is not wholly clear who is primarily responsible if there are sales or advice in the absence of a KID (and see next paragraph below). Article 5 should rather be amended to state that "No person can advise on, or sell, such a PRIIP to retail investors in the EU unless the manufacturer of that product has drawn up a key information document for that product in accordance with the requirements of this Regulation, and has published the document on its website."

The key point in this respect (which ICMA has historically emphasised) is that it would be fundamentally unjust to separate action from related responsibility. Illegal secondary market selling of PRIIPs to retail investors by third parties, either unknown to the manufacturing issuer or over which it has no control (the PRIIPs definition of "distributor" is not specific in this respect), should not cause that issuer to be in technical breach of an obligation to produce a KID. It should suffice (as the ESAs' acknowledged) that where a "distributor" does not have a KID, such "distributor" would be in breach of the PRIIPs Regulation if proceeding with the sale of the PRIIP concerned – ie the mere absence of a KID amounts to a statutory prohibition on retail sales/advice of in-scope products by anyone (excepting retail investors themselves as noted in #21 below).

7 *Non-retail design:* The ESAs noted it could be made clear that no KID is required where the PRIIP manufacturer designs a PRIIP in such a way that its target market excludes retail investors or that its legal documentation (prospectus, rules or instruments of incorporation) makes it clear that the PRIIP is solely addressed to professional investors.

In this respect, it is worth recalling that the "target market" concept arises in the context of the MiFID product governance regime[9] that is separate and distinct from the PRIIPs regime.

KID presentation

8 *"Super-key" information:* The ESAs ironically noted the KID is too long and detailed for many types of retail investors and consequently suggested the KID include a summary of the "most essential" information at the top of the KID, such as in the form of a dashboard. The ESAs further noted the "vital" information be included in the first layer to avoid "crucial" information being given less prominence.

It has always been unclear how "key" information differed conceptually from the long-established (and clearly understood) concept of information "material" to an informed investment decision – with consequent uncertainty as what information is deemed key information, beyond the legislators' subjective selection of specific information line items. Adding a further concept of seemingly "super-key" information would seem likely to add even more uncertainty – albeit again to the extent not limited to the legislators' subjective selection of specific information line items.

9 *Personalisation/tailoring:* The ESAs suggested manufacturers be required to take into account the characteristics of the type of retail investor to whom the PRIIP is intended to be marketed and that it should be possible for them to provide a more personalised or tailored KID without prior website publication.

It is unclear what context the ESAs had in mind here, but it seems unlikely to relate to a public offering of bonds.

10 *Digital compatibility/machine readability:* The ESAs encouraged the Commission to consider the regime's fit with the European Single Access Point (ESAP) and expressed support for machine readability (distinct from machine-extractability). They also supported smart device compatibility.

In this respect, ICMA's 29 March response to the Commission's ESAP proposals noted that machine readability depends to a great extent on the preliminary existence of structured/standardised data (in addition to the use of a taxonomy), which could be inappropriate in many sectoral cases. Indeed structured/standardised data would suggest application to highly standardised/harmonised products – which is not the case for bonds. It is furthermore unclear how smart device compatibility would be coherent with the relevance of full disclosure (as noted in #12 below) – since it is unclear how such full disclosure could be compatible with smart device interfacing (other than in the historic PDF format).

11 *Page limit extension:* Lastly the ESAs' envisaged that content changes to the KID's "performance" section (see #17 below) might require a marginal extension of the KID's three-page limit.

9. On 8 July, ESMA published a consultation paper on a review of its Guidelines on MiFID II product governance requirements. ICMA will confer with its members to respond by the 7 October deadline.

KID purpose

12 *Summary linked to fuller disclosure:* The ESAs' advice noted that one of the objectives of the KID is to be a concise summary document that might sit "above" a longer more detailed pre-contractual disclosure document such as a prospectus.

This is a welcome suggestion, as bringing some measure of clarity (albeit indirectly) to the KID's unclear purpose that has been a historic ICMA concern (eg as expressed under Q4.2.1 of ICMA's August 2021 response to the Commission's consultation on a retail investment strategy for Europe) and also in terms of regulatory consistency with the PR as noted in #3 above.

13 *Insufficient content for informed decisions:* The ESAs noted in passing feedback from some regulators that marketing documents generally contain less information and are more concise than the KID and therefore do not include all the information necessary for a retail investor to make an informed decision.

However, ICMA's historic concern referenced in #12 above has been that the KID may also fail to satisfy such a purpose (except for the most basic or standardised products) – hence the importance of a link to longer more detailed pre-contractual disclosure.

14 *Retail disclosure challenging:* The ESAs' advice included a further passing acknowledgement as how challenging it is to use disclosures to retail investors as a regulatory tool to protect consumers.

In this respect, it seems standalone disclosure does not work anyway (as short disclosure, even if read, often seems to be misunderstood) and needs to be complemented (for the majority of retail investors) by suitably regulated and supervised intermediation – as recently noted in ICMA's 20 May response (at Q5-Q6) to an IOSCO retail consultation (separately reported in this edition of the ICMA Quarterly Report).

15 *Competing aims (comparability and understanding)/ product differentiation:* The ESAs noted that two of the principal aims of the PRIIPs regime are (i) to help retail investors to compare different products (so involving a highly standardised and prescriptive template) and (ii) to understand their features. But the ESAs also noted that there are challenges to achieve both these aims simultaneously in the context of the broad scope of the regime and that it is important to recognise that there can be some tension or a trade-off between these two aims. The ESAs recommended a statement that comprehensibility should have priority over comparability and an empowerment to allow different approaches where appropriate in order to provide information that is fair, clear and not misleading. This is to account for different product types but still aiming for direct comparability between products that are substitutable (not all of the products currently within the scope of the regime being considered to be substitutable). The ESAs suggested six product groups in this respect: (i) long-term savings (or retirement) products, (ii) very short-term products, (iii) products with material insurance benefits, (iv) linear (non-structured) products (including investment funds and certificates), (v) structured products and (vi) derivatives.

It remains unclear whether the ESAs' recommendation would, in practice, account sufficiently for bonds (or whether it is even intended to) – particularly given the ESA's six suggested product groups. Pending any resolution of these competing aims, this is indeed a further factor behind the need to clearly exclude bonds from the scope of the regime as noted in #2 above. (The return to a focus on substitutable products is however welcome, bearing in mind the Commission's initial call for evidence behind the regime, in October 2007, was formally about "substitute" retail investment products – with bonds arguably not being substitutable for UCITs.)

KID content

16 *Content derogation (at manufacturer, not regulator, discretion):* The ESAs noted challenges to designing a highly standardised template to help retail investors. They suggested the regime provide some discretion to PRIIP manufacturers (only to be used in specified cases) to make adjustments to the strict application of certain requirements, provided this is duly justified and documented. The ESAs had considered an alternative that regulators be able (as per the PR) to authorise a certain part of, or certain information within, the KID to be adjusted – if the inclusion of information according to the prescribed template or methodologies would risk being misleading, or otherwise risk causing material detriment. The ESAs however did not recommend this alternative on the basis that its advantages were outweighed by its drawbacks – the risk of non-convergent approaches at EU level and high regulator resourcing given the potential for a high number of requests. (This last aspect notwithstanding the ESAs also noting it was not clear how many issues would arise and seeing the issues that have arisen to date as part of the implementation phase of the KID and expecting them to arise less frequently over time.)

It is unclear (subject to more specific details) whether bond issuers would feel comfortable exercising a discretion to derogate from KID content, with likely focus continuing to be on out-scoping bonds as noted in #2 above. In terms of regulator discretion, the PR's derogation mechanism benefits from the PR's relative clarity as to the Member State whose regulator has jurisdiction under the PR – which is not the case for the PRIIPs regime (as further noted under #20 below).

17 *Appropriate performance information:* The ESAs also supported appropriate information on performance, allowing for more-product specific measures (including past performance). Some products (such as retail structured products) might stay with performance scenarios and others (such as funds) might perhaps move to other types of information on performance together with past performance (so not solely past performance). Such other information types might include narrative-based performance information indicating the factors upon which performance depends. This could include the most relevant index, benchmark, target, or proxy, as applicable, along with an explanation of how the PRIIP is likely to compare in terms of performance and volatility, sensitivity to changes in interest rates etc. In certain cases, where relevant, these might also include hypothetical ("what if") information.

18 *New section on sustainable investment objectives:* The ESAs proposed, instead of the existing objectives provision, a new section (in line with the Sustainable Finance Disclosure Regulation (SFDR)) where a product has sustainable investment as its objective or it promotes having environmental or social characteristics. They also noted the approach and terminology used in PRIIPs should be aligned with those in the SFDR and that it would be appropriate to limit the type of PRIIPs, which can show that they have such an objective or that they promote having such characteristics, just to financial products included within SFDR Articles 8 and 9. However, the ESAs noted it can be relevant to take into account further developments in this area, such as regarding the European green bond standard (EUGBS).

As SFDR's definition of financial products (under its Article 2.12) does not include bonds, it is unclear how this proposed new section in the KID is intended to operate regarding sustainable bonds (bearing in mind also the ESAs' stated focus on the EUGBS). The reference to SFDR reflects the current European ESG regulatory approach to apply and insert concepts defined in one piece of sustainable finance legislation to other pieces of sustainable finance legislation, notably in the European Parliament's EUGBS 20 May report (where there is a similar lack of clarity as to how those concepts originating from SFDR will apply in a different context). Although sustainable bonds (aside SLBs as noted in #2 above) typically tend not to be packaged, it would nonetheless be useful to get greater certainty in this respect consistent with the ESA's recommendation noted in #2 above.

19 *Costs & charges:* In terms of costs & charges differences between the PRIIPs and MiFID regimes, the ESAs agreed it is vital to try to ensure that the information that retail investors receive under different investor protection frameworks are consistent (with this being related to the more general issue of differentiation – as noted in #15 above).

Other aspects

20 *Regulator jurisdiction:* The ESAs suggested it might be relevant to clarify the respective responsibilities of host and home authorities, noting "home" as where the PRIIPs manufacturer is established (albeit accounting for existing passporting arrangements). The ESAs supported broader use of *ex-ante* KID notification (albeit in the context of encouraging the Commission to consider the fit of the PRIIPs regime with the ESAP as noted in #10 above). But they were clear that this should not amount to a review/approval requirement. (The ESAs' advice seemed to list just Finland and Portugal as currently having elected *ex-ante* KID notification.)

The PRIIPs regime has not so far seemed to provide for clear, single-regulator jurisdiction over individual PRIIPs. Article 4.8 of the PRIIPs Level 1 Regulation defines "competent authorities" only as the national authorities designated within each Member State to supervise the requirements that the regime places on PRIIP manufacturers and the persons advising on, or selling, PRIIPs. It does not explicitly define a single Member State whose regulator would have jurisdiction as the "home" regulator distinct from "host" regulators. Article 8.3(a) of the Regulation requires the KID to state information about the competent authority of the PRIIP manufacturer – this might seem to hint at some form of MiFID-like general supervisory authority. But the legislators' intention is unclear, and it is also uncertain whether this would be compatible with issuing manufacturers that are not necessarily regulated financial institutions or even EEA-based (given the regime's potentially wide product scope as noted in #2 above). Issuing manufacturers have been consequently likely to assume that any or all of the 27 EU Member State regulators given PRIIPs responsibility at the national level may have concurrent jurisdiction – a compounding complication to the various interpretational ambiguities arising in the context of the regime (including as to product scope as noted in #2 above).

Aside from being clear, jurisdiction should ideally be exclusive – at least to the extent a KID has been published. (Any illegal selling/advising in individual Members States in the absence of a KID would be open to the national regulators to enforce, albeit ideally on a coordinated basis.) Since manufacturing issuers are not necessarily regulated financial institutions or even EEA-based, an approach might for manufacturers publishing a KID to have some element of flexibility for their KID to nominate the "home" regulator (with jurisdiction over the KID's adequacy) – similar to that under the PR's Article 2(m) definition. This would leave the "host" regulator with jurisdiction over any translation and *ex-ante* notification requirements.

21 *Retail sellers:* The ESAs suggested it should also be clearer that the obligation to provide a KID should only apply to professional advisers or sellers (i.e. retail sellers are not required to provide a KID).

22 *PRIIPs regime data/statistics:* The ESAs advice included data received from various national regulators.

Conclusion and next steps

23 Whilst a broad review of the PRIIPs framework conceivably opens the possibility of an alleviation of the incompatibility of the regime with the flow bond markets, the many detailed challenges involved make such a full alleviation seem unlikely. So industry focus seems likely (for now) to continue to be on ensuring bonds are sufficiently clearly excluded from the scope of the PRIIPs regime. ICMA will continue to engage with the EU authorities in this respect.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

CSDR: impact on primary markets

On 22 May, ICMA submitted its feedback on the European Commission's proposal to revise the Central Securities Depositories Regulation (CSDR). The feedback mostly addressed secondary market aspects (as separately reported in this edition of the ICMA Quarterly Report), but also addressed at the end certain primary market aspects.

ICMA noted the proposal envisaged exclusions from the CSDR settlement discipline regime, such as certain transactions from the primary market.

ICMA had historically not requested a specific exclusion relating to the new bond issuance primary market, as scenarios for delayed primary market settlement seemed either outside the scope of the settlement discipline mechanisms and otherwise highly unlikely to occur in practice and/or to be manageable.

However, a further scenario was recently brought to light where there may be frequent settlement fails. This is where a new bond issue is initially delivered by the issuer into DTCC in the United States, for the new issue underwriters to then settle with the initial primary market investors in the two ICSDs (Euroclear and Clearstream) in Europe. Such initial delivery by the issuer occurs in the morning in the United States but also then in the afternoon in Europe, due to time zone differences. So onward transfer from DTCC into the ICSDs by the underwriters quite commonly misses the ICSDs' intra-day cut off times for same-day ("daylight") settlement. (This long running situation was not historically perceived as problematic, since the ICSDs back-value next-day settlement.)

In this respect it has been anecdotally reported that primary market investors are now being asked in some cases to accept their initial allocation in their DTCC accounts. It has also been suggested, as an alternative, that initial delivery by the issuer occurs directly into the ICSDs – though the likelihood of practical traction with issuers used to delivery into DTCC remains to be seen.

Consequently, ICMA supports the fact that the Commission's intention to alleviate fails from the settlement discipline regime includes certain transactions from the primary market. A potential approach in this respect might be to allow one day's grace to all new bond transactions that are due to settle on that bond's new issue closing date, whether in the primary market or in the secondary market (this would avoid secondary market on-sales from being penalized due to a primary market delay).

ICMA looks forward to assisting the Commission in elaborating its delegated acts in this respect.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

IOSCO retail consultation

On 20 May, ICMA responded to IOSCO's *Retail Market Conduct Task Force Consultation Report*. The response made four key points.

Firstly, cross-border bond markets are overwhelming institutional-only, inter alia due to onerous retail regulations (as well as logistical considerations and fiscal and cultural specificities). Any mass retail bond offerings tend to occur on a domestic basis only. They tend to be rare even domestically, with the exception of domestic government bonds and a few domestic corporate bond markets. Any retail participation in cross-border bond markets tends to involve high net worth investor accounts, generally professionally managed on a discretionary basis.

Secondly, there seem to be significant limitations to disclosure as a retail investor protection tool. Full/long-form disclosure is necessary to satisfy the substantive requirement that all material information be disclosed (in a bond context at least) – but will not be read by typical retail investors. And short-form disclosure may not necessarily be read either and is often misunderstood.

Thirdly, long-form disclosure is consequently necessary as a public transparency preliminary (and perhaps of use to a minority of retail investors) – to be complemented (for the majority of retail investors) by suitably regulated and supervised intermediation.

Fourthly, product governance (as implemented by the EU in the context of MiFID II) is conceptually flawed regarding commoditised funding products and so is not a suitable alternative regulatory tool to disclosure in the bond markets. Attempting to "customise" commoditised products such as bonds can undermine the liquidity that is one of the fundamental characteristics sought after by bond market investors.

The response also noted in passing that:

- the concept of "misleading" information also encompasses information that is neither intentionally nor recklessly misleading, with related civil liability considerations;
- AFM 2019 research on short form disclosure seems to include several substantive inaccuracies (seemingly perceiving prospectus summaries under the EU Prospectus Regulation as standalone documents, potentially judging the clarity of such summaries based on a non-representative sample and ignoring diversification in judging investors' decision-making in respect of the "best" product).

ICMA engages with authorities on retail bond markets as and when such authorities indicate an interest in the topic, such as publishing consultations. ICMA looks to ensure that official steps regarding retail markets do not disrupt the institutional / wholesale markets which have been reliably providing trillions in financing to Europe's economy (and beyond) over the years.

Contact: Ruari Ewing
ruari.ewing@icmagroup.org

ICMA Primary Market Handbook updates

ICMA published a small number of updates to the standard language appendices of the ICMA Primary Market Handbook (available to ICMA members and ICMA Primary Market Handbook subscribers) on 22 June 2022.

There were no changes to the standard language itself, but a small number of introductory paragraphs and endnotes were updated in order to highlight recent UK FCA guidance related to the UK PRIIPs Regulation (set out in DISC 2 in the FCA Handbook).

The changes were made to Appendix A8, Final terms and pricing supplement; Appendix A12a, Product governance (MiFID II) language; Appendix A13, Selling restrictions and legends (EEA PRIIPs Regulation, EEA Prospectus Regulation); and Appendix A13b, Selling restrictions and legends (UK).

Contact: Charlotte Bellamy
charlotte.bellamy@icmagroup.org

Common data dictionary for primary bond markets

Following recent roundtables with primary market constituents, ICMA has formally established the Common Data Dictionary (CDD) working group. Previous roundtables explored the risks of fragmentation resulting from a rapid growth of technology solutions, and the importance of speaking a common language for participants to communicate across different systems throughout the primary issuance process. Following member feedback, it was agreed the development of a data dictionary would promote straight-through-processing (STP) and interoperability and assist in streamlining operations or developing new services.

The CDD aims to provide a framework for representing key bond details, building on existing standards and initiatives, for market participants to map to or reference when exchanging data electronically during the issuance process of a bond. Such a dictionary would define a structure to represent fields (data points) and attributes (expected data point values). As a result, details for describing a bond are consistent with consumers of data such as issuers, underwriters, investors, lawyers, CSDs, custodians, IPAs, and vendors.

The initial focus of the group is to reach agreement on how to represent economic terms of a bond (eg nominal amount, currency, interest type, maturity date), and other information typically included within a term sheet (eg whether bearer, registered, or dematerialised). The meeting held in May invited data providers and vendor firms to share feedback on the scope of key fields highlighted by market participants, while the latest meeting in June involved building consensus on specific field requirements. Terminology discussed included current market uses of Status of the Notes, Ratings, and Form of the note, among others, based on the ICMA Primary Market Handbook wholesale final terms *pro forma.*

An iterative process will involve agreeing to a common understanding of fields flagged by the group, including expected attributes and how attributes should be represented to meet the expected benefits of a machine-readable common language. The group represents a broad constituency of ICMA members, from issuers, banks, investors, market infrastructure, law firms and vendors.

Please contact us if you would like to join.

Contact: Rowan Varrall
rowan.varrall@icmagroup.org

Secondary Markets


by **Andy Hill and Elizabeth Callaghan**

ICMA best practice guidance on settlement efficiency in bond markets

On 22 June 2022, ICMA published secondary market best practice in support of settlement efficiency. Endorsed by the Secondary Market Practices Committee (SMPC), this is intended to be applied by ICMA members in the context of the international secondary bond markets. These best practice recommendations were originally developed through the work of ICMA European Repo and Collateral Committee (ERCC) and the ERCC Operations Working Group. The ERCC Committee endorsed this list of best practices in January 2022, highlighting the commitment of member firms to follow these recommendations for the benefit of the wider market and to encourage other firms to do the same.[1]

ICMA best practices in support of settlement efficiency

1. Shaping

It is best practice to divide instructions for the delivery of large trade "shapes", but confirmations should be sent for the whole transaction, not for each shape.

2. Partial settlement

It is best practice for partial deliveries to be accepted whenever there has been a delivery failure, provided that the party expecting delivery would not be disadvantaged by an incomplete delivery and provided that partialling is operationally feasible for both parties. Market users should make best endeavours to eliminate operational obstacles within their own firm and encourage customers to accept partial delivery. Partial settlement should not be for less than the minimum tradeable amount in the market for the security being partially delivered.

It is best practice for partial settlement to be completed as swiftly as possible.

It is best practice for parties to opt into the use of auto-partial facilities at CSDs. Auto-partial settlement should not be for less than the minimum tradeable amount in the market for the security being partially delivered.

3. Auto-borrowing

With the exception of CCPs, it is best practice for all participants in (I)CSDs to sign up as borrowers to auto-borrowing or automatic pool lending facilities and, where practicable, to sign up as lenders. As full use as possible should be made of these facilities.

4. Technical netting or "pair-offs

It is best practice for parties to cooperate to maximize both bilateral and multilateral netting opportunities. This includes the use of pair-offs between related bond and repo transactions to reduce settlement cost and risk.

1. This work is outlined in more detail in the February 2022 ERCC discussion paper: *Optimising settlement efficiency*

The recommendations relate to four key elements of settlement best practice: (i) trade shaping; (ii) partial settlement; (iii) auto-borrowing; and (iv) "pair-offs".

It is hoped that these recommendations will be widely adopted in the international secondary bond markets, helping to underpin settlement efficiency, and reducing both fails costs and counterparty credit risk for market participants.

Contact: Andy Hill
andy.hill@icmagroup.org

The appropriate EU bond market transparency regime framework: ICMA advocacy

The following outlines ICMA's views, recommendations, and ongoing advocacy regarding the appropriate corporate and sovereign bond market transparency regime (including HY/IG classification) and its vehicle, the consolidated tape. Also, it outlines how a market expert advisory group is needed to assist ESMA to steer a competitive functioning course for EU bond markets.

Getting the bond transparency balance right

ICMA understands that the main goal of the CMU is to promote funding of EU growth through EU bond markets and competition through the attractiveness of EU bond markets to international investors, all while enabling stability and functioning of the EU secondary bond markets.

Ending the current post-trade pricing fragmentation across EU trading venues and APAs through the introduction of a bond consolidated tape is a significant step forward. However, it will be a step backwards if the lawmakers and regulators do not calibrate the bond transparency regime framework correctly. The result could very well be the promotion of smaller sized investors at the expense of institutional investors.

We are hearing from some quarters that, in order to attract retail and small size investors, lawmakers might suggest real-time bond transparency for EU retail sized trades.

However, in order to attract medium sized investors to EU bond markets, for small, medium, and large liquid trades, short deferrals may be required: for example, if lawmakers were to consider a bond transparency framework where the following deferrals were to take place**:**

(i) for medium sized liquid trades, publication of price and size 15 minutes later;
(ii) for medium size but illiquid trades, publication of price and size could be end-of-day (EOD);
(iii) for large liquid trades the price and size deferral could theoretically be asymmetrical, with price set at end of following day and size one week later.

These combinations of deferrals might well attract retail, small and medium sized investors (though further impact assessment analysis is required to confirm this), as these investors traditionally do not require balance sheet risk.

These trade positions are fairly straightforward to trade out of, so there is little market impact risk for asset managers or liquidity providers. Market makers will in most instances (but not all) not find themselves in the circumstance of having other market participants trading against them, due to premature trade transparency exposure. According to ICMA's preliminary research, these small and medium investor types of trades could be around 80% to 90% of overall bond trades in the EU.

The transparency benefits for the EU would start to falter if lawmakers were to then propose, in the attempt to attract large and very large investors into EU markets the following framework for large illiquid and very large trades in the EU, such as:

(iv) for large illiquid trades, publication of price and size both at end of second following day (T+2) and
(v) for very large trades, again an asymmetrical approach, set at flashing a price at end of second following day (T+2) and publication of size four weeks later.

The industry believes that if trade categories (iv) and (v), with the preliminary suggested (far too short) deferrals, were to go ahead, they would be counterproductive and would repel institutional investors from EU secondary bond markets instead of attracting them. The premature trade exposure will result in higher prices, reduced available liquidity and poorer asset manager trading performance. These results could very well send institutional investors to more appealing bond markets outside the EU. These categories of trades are almost always either large block or illiquid trades, making these positions very difficult to trade out of. Asset managers require balance sheet risk from their market makers to cover the challenge of immediacy: ie market makers not having the bond(s) in inventory and yet being required by the client to guarantee delivery of the bond. According to initial research, roughly around 10% of overall bond trades in the EU are large illiquid and very large trade categories.

There is great concern, from EU asset managers in particular, that attracting retail and small investors to EU bond markets could end up being at the expense of institutional investors. The compromise transparency solution is clear. For large illiquid trades, both price and size should be published two weeks after the trade and for very large trades (which are always illiquid due to the size of the trade), the price and size should both be published four weeks after the trade. It is important that lawmakers get this transparency balance right in order to facilitate and promote success for EU institutional market participants such as asset managers and banks. This balanced transparency regime has the additional benefit of protecting EU pension funds and their end-investors.

HY/IG bond instrument classification: a global standard

ICMA believes it is important to have a corporate bond transparency regime with three variables: (i) issue size (or amount outstanding); (ii) trade size; and (iii) high yield/investment grade instrument classification. However, if lawmakers were to drop the final third category, this would remove a key variable from acknowledged bond market trading practices.

There is widespread acceptance from bond market participants and many lawmakers alike that, for corporate bonds, HY/IG instrument classifications are a global standard and part of a bond trader's DNA. Investment grade and high yield corporate bonds are known to have different characteristics. As such, high yield corporate bonds require much greater care when recycling associated risk. Since investment grade corporate bond trades are easier to trade out of, buy sides have reported to ICMA that they trade (in multiples) much more investment grade corporate bonds than high yield corporate bonds. In addition, liquidity providers such as banks often have different desks or specialist individuals covering HY or IG: so, very different classes of corporate bonds with very different liquidity profiles.

A "one size fits all" liquidity approach to trade size thresholds for corporate bonds does not work and introduces execution risk due to over/under transparency exposure. This is why the US has adopted HY/IG trade sizes for its own transparency regime framework, as found in its centralised consolidated tape, TRACE. The ECB also takes into account HY/IG classification in its standard day- to-day dealings, proving HY/IG is a global standard variable for liquidity and transparency.

To drive home the different characteristics of IG/HY, below is an example of a comparison of a HY bond, X, a small company, and an IG bond, Y, a larger company. Industry accepted thresholds of €2mm HY and €5 mm IG are used to gauge over or under transparency exposure and also to demonstrate the fine tuning HY and IG instrument classifications can provide.

Example of lack of fine-tuning in bond market transparency:

X (HY) – 5mm and above, deferred publication
Y (IG) – 2mm and above, deferred publication

- If X is trading, and it is a liquid market, and the trade size is < 2mm – Then no negative consequences, in fact positive exposure.
- If X is trading, and it is a liquid market, and the trade size is ≥ 2mm – Then no negative consequences, in fact deferred, so protected from negative exposure.
- *If X is trading, and it is an illiquid market, and the trade size is < 5mm, then negative consequences, as any transparency above 2mm is damaging overexposure.*
- If X is trading, and it is an illiquid market, and the trade size is ≥ 5mm – Then no negative consequences, in fact deferred, so protected from damaging exposure.
- If Y is trading, and it is a liquid market, and the trade size is < 2mm – Then no negative consequences, in fact positive exposure.
- *If Y is trading, and it is a liquid market, and the trade size is ≥ 2mm, then negative consequences, not enough transparency for this bond trade, it is underexposed.*
- If Y is trading, and it is an illiquid market, and the trade size is < 5mm – Then no negative consequences, in fact positive exposure**.**
- If Y is trading, and it is an illiquid market, and the trade size is ≥ 5mm – Then no negative consequences, in fact deferred, so protected from damaging exposure.

As mentioned earlier, there is widespread agreement that HY/IG bond classification is logical regarding the characteristics and usefulness to a bond transparency regime. It seems that the hurdle to get over may be the role that ratings agencies might play in any future EU corporate bond transparency regime. Given lawmakers and regulators experiences in the 2007-2009 financial crisis, lawmakers may not want the industry to have sole reliance on rating agency ratings. As such, ICMA and its members have provisionally created a plan whereby a potential ratings methodology is not solely based on any one or even an amalgamation of rating agency reference data.

For example, a potential HY/IG methodology could involve assessing bond yield thresholds. ESMA would analyse the yields, on an ISIN-by-ISIN basis, using industry accepted thresholds. If the yield is below the yield threshold the bond is "IG", and if above, the bond is "HY". The results can then be compared against an amalgamation of published ratings reference data. This analysis, while a large data set, is straightforward.

ICMA considers that, with this type of HY/IG methodology, there are no risks from using HY and IG bond instrument classifications to supervisors, bond market participants or end-investors. Of course, the final IG/HY methodology should be determined in Level 2 by ESMA, in consultation with the industry.

Bond market transparency: sovereign bond transparency, as well as corporate

ICMA agrees the bond consolidated tape (CT) is a vehicle for transparency. Today there are a handful of candidate bond CT providers. This is welcome news to EU bond market participants. However, the commercial expectation for potential bond consolidated tape providers is that they will be consolidating corporate *and* sovereign bond trades. However, currently, in order to protect some participants from sovereign bond transaction exposure, sovereign bond transactions can be omitted, indefinitely deferred or aggregated (or several transaction details not published). A consolidated tape cannot aggregate already aggregated data, nor can it aggregate indefinite deferrals or missing data. Initial research indicates that upwards of 50% of sovereign bond trades may not get published in the future bond consolidated tape if aggregation and indefinite deferrals remain. There is concern from potential CT providers that, without *an appropriate* representation of sovereign bond transactions in a consolidated tape (in addition to corporate bond transactions), the CT may not be commercially viable. If more than 50% of sovereign bonds are not published, this potentially alters the business model for potential providers, and they may withdraw interest. It would therefore be a missed opportunity to advance the development of cross-border capital markets in Europe and the CMU initiative.

ICMA's sovereign bond trading members suggest the benefits of aggregation and indefinite deferrals under the current framework could be replaced with appropriately calibrated "extended" deferrals. These extended deferrals would protect *all* market participants (including DMOs) from transparency exposure yet provide the bond market with the much-needed post-trade information on sovereign bond transactions.

ICMA's MiFIR Transparency Taskforce is currently engaged in creating a framework for sovereign bonds. The expectation is to publish the proposed sovereign bond transparency framework during the summer of 2022.

Market Expert Advisory Group (MEAG)

Analysing a market's – any market's – operational effectiveness is essential in order to enable the functioning of the market. This is vitally so for a bond market, where balancing risk and exposure is so critical to its day-to-day functioning. Bond markets are quite nuanced given their complexity and the fact liquidity provision is heavily risk-based.

In order properly to analyse bond market functioning on an ongoing basis, a dedicated group must analyse both quality of risk provision in the EU and the quality and substance of core market data and any and all transmission protocols. Together, these two qualitative and quantitative elements will determine what thresholds and deferrals are working or not and what modifications should be applied in order to accurately reflect current bond market functioning as well as what information is useful for market participants.

This dedicated group should be a well-rounded expert-based group that is *data-led.* As such, ICMA supports the creation of an expert industry stakeholder group which would comprise senior market data experts as well as senior trading specialist experts. These experts would rotate, as required, but both would contribute to a semi-annual report that would make recommendations for any necessary modifications to the current standards, transmission formats and reporting requirements, as well as recommending any increases, decreases or holds to bond market post-trade transparency thresholds.

These expert stakeholder recommendations would be based on actual bond market experiences and backed up with quantitative and qualitative evidence. Moreover, these stakeholder recommendations should be considered "actionable". In the case of the senior trading specialists, they should have a balance of natural transparency preferences: ie a mix of firms who, generically, would benefit from either less or more transparency, depending on business models. In times of exceptional adverse market conditions (eg COVID-19), these senior trading expert specialists could also recommend and publish emergency changes to post-trade transparency thresholds.

ICMA suggests that the European Commission could investigate the possibility of legal measures to establish repetitive six-month delegated acts to allow them to set up a Market Expert Advisory Group that reports recommendations based on: (i) analysis of the quality of risk provision in the EU; and (ii) analysis of the quality and substance of bond market data.

More specifically, the Commission should be empowered to enable the MEAG stakeholder group to specify in detail all of the following:

- Recommendation to "increase", "decrease", or "hold" bond deferral thresholds, based on trading expert analysis of bond market risk provision over the previous six months.
- Recommendation for changes to bond data fields, reference data, substance, and the format of core market data and transmission protocol, based expert analysis of the data quality in bond markets over the previous six months.

Conclusion

The inclusive balanced corporate and sovereign bond transparency framework with finely-tuned instrument classification, along with qualitative and quantitative actionable analysis mentioned above, are all necessary in order to have workable bond market deferrals that are dynamic and nimble enough to promote competition, while sensitive enough to provide stability in EU bond markets.

Contact: Elizabeth Callaghan
elizabeth.callaghan@icmagroup.org

CSDR Settlement Discipline

On 2 June 2022, ESMA published the Regulatory Technical Standards (RTS) that are intended formally to suspend the implementation of mandatory buy-ins (MBIs). This follows the publication in the *Official Journal* of amendment to CSDR, made as part of the DLT Pilot Regime. The RTS proposes a three-year delay to the implementation of the revised MBI framework (which is still being discussed by co-legislators and is yet to be finalised). In terms of next steps, this draft RTS is submitted to the European Commission for endorsement in the form of a Commission Delegated Regulation, after which it will be subject to scrutiny by the Parliament and Council. In the meantime, ESMA's deprioritisation letter (effectively a "no action letter") will continue to apply.

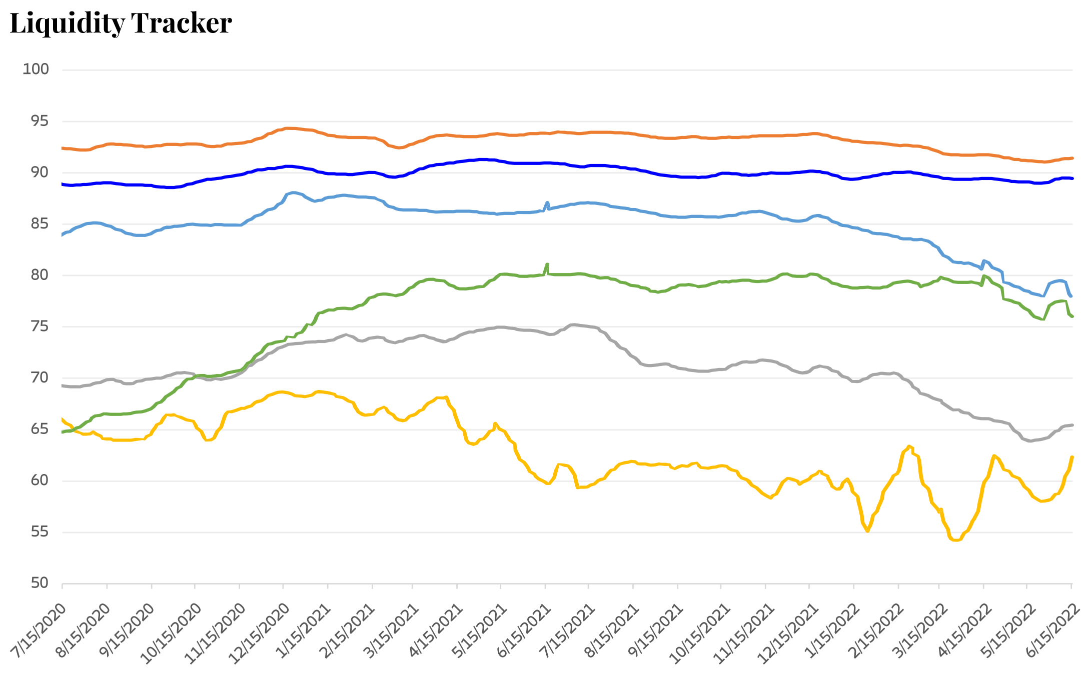
Meanwhile, on 26 May 2022, ICMA submitted its formal feedback on the European Commission's proposed amendments to CSDR (or "CSDR Refit"), with a particular focus on the revised MBI regime. Guided by its members, ICMA provides the following core recommendations: (i) greater flexibility in the assessment process for the "two-step approach", including the possibility to recalibrate penalties; (ii) the exclusion of SFTs from the scope of MBIs; and (iii) in the event that MBIs are applied, implementing this through market regulation, rather than in CSDR. ICMA is also engaging with the various regulatory authorities to raise awareness of and to explain the rationale for these proposed enhancements.

Otherwise, through its CSDR Settlement Discipline Working Group, ICMA continues to monitor feedback from members on the roll-out of the Penalty Regime, which has been live since 1 February 2022. Despite ongoing challenges with CSD and custodian reports and underlying data quality, members are observing a steady improvement in accuracy and the reconciliation process. Cross-industry working groups have been established to support improvements in the penalties process from the perspective of reference data, messaging standards, and the monthly calendar. Any ICMA members interested in participating in these workstreams would be very welcome.

Contact: Andy Hill
andy.hill@icmagroup.org

Corporate Bond Market Liquidity Indicators™

USD IG and HY liquidity converge amidst drop in market liquidity in Q2



Source: ICE Data Services

Commentary

Liquidity in credit markets broadly declined throughout Q2, but conditions remain nuanced. While liquidity in GBP and EUR IG deteriorated only gradually, the decline of USD IG, USD and EUR HY credit markets was more pronounced. Bucking this trend, GBP HY liquidity recovered sharply from a historic low at the end of Q1 2022. Meanwhile, the gap between USD IG credit market liquidity and USD HY continued to narrow, recording an all-time minimum since the inception of the ICE corporate bond market liquidity indicators.

Members who are interested in the methodology underlying the Tracker, or who would like to discuss how it could be developed for specific uses, are encouraged to reach out to Gabriel Callsen.

ICE Liquidity Indicators™ are designed to reflect average liquidity across global markets. The ICE Liquidity Indicators™ are bounded from 0 to 100, with 0 reflecting a weighted-average liquidity cost estimate of 10% and 100 reflecting a liquidity cost estimate of 0%. The ICE Liquidity Indicators™ are directly relatable to each other, and therefore, the higher the level of the ICE Liquidity Tracker the higher the projected liquidity of that portfolio of securities at that point in time, as compared with a lower level. Statistical methods are employed to measure liquidity dynamics at the security level (including estimating projected trade volume capacity, projected volatility, projected time to liquidate and projected liquidation costs) which are then aggregated at the portfolio level to form the ICE Liquidity Indicators™ by asset class and sector. ICE Data Services incorporates a combination of publicly available data sets from trade repositories as well as proprietary and non-public sources of market colour and transactional data across global markets, along with evaluated pricing information and reference data to support statistical calibrations.

Repo and Collateral Markets




by **Andy Hill, Alexander Westphal, Zhan Chen and Lisa Cleary**

The second ICMA ERCC buy-side workshop

On 11 May 2022, the ICMA European Repo and Collateral Council (ERCC) held its second buy-side workshop. This was intended to build on the previous buy-side workshop (9 February 2022), bringing ERCC Committee sell-side members into the conversation with a focus on the role of and challenges facing bank intermediation. ERCC Committee financial market infrastructures (FMIs) were also invited to provide input on their role in facilitating buy-side market access.

A number of key observations were raised by participants through the discussions.

(i) Banks need to manage various internal liquidity requirements, such as LCR and NSFR, and do so with varying degrees of sophistication. An additional complication is where large banks have been divided into a number of smaller entities in order to provide access into different jurisdictions. Whereas previously the bank would have managed one large pool of liquidity, they now have multiple, smaller pools, each with its own regulatory requirements. This creates additional complexities and limitations on banks' abilities to provide liquidity to the market.

(ii) This is made even more complex as a result of varying jurisdictional regulatory requirements impacting different regional entities within the banking group. This also means that banks have the added obligation to articulate to their client base what the various binding constraints are on their ability to provide liquidity, which can vary depending on the domicile of the counterparty. However, understanding this can in some instances provide opportunities, whether for banks to deploy balance sheet profitably, or for buy sides to enjoy advantageous pricing. A further consideration is that repo businesses do not operate in isolation and are part of a bigger ecosystem within the bank, meaning that internal capital constraints can also change, sometimes quite suddenly and significantly.

(iii) An additional consideration identified is the importance of where the repo desk sits within the structure of the bank. For example, this could be part of the treasury function, or a standalone trading desk within the securities franchise. This will alter the lens through which the desk will assess different trading opportunities and how it deploys marginal balance sheet. Understanding the operational model of their bank counterparties can also be challenging for buy sides.

(iv) Buy sides are inherently reactive to banks' liquidity provision and their binding constraints, and what they experience is a very complex set of factors affecting this, which Is not easy to navigate. This becomes even more challenging when they need liquidity most: coming up to reporting dates or during a crisis. This is also when the banks are most restricted. The number one priority is to ensure access to liquidity at all times, and that is the biggest concern from a buy-side perspective, along with how to navigate the ever-evolving regulatory landscape.

(v) Buy sides need to have a good understanding of the different reporting obligations of their bank counterparts, and also the timings. This does provide some pockets of liquidity, as previously highlighted, but it requires constant mapping and is also prone to change, particularly when the overall market becomes stretched, and when there may not necessarily be anywhere left to go for a price. This also explains why it is important to look at different solutions and new initiatives intended to facilitate access to liquidity, the development of which also being driven by sell-side needs. However, it is equally important to be aware of their limitations.

The participants also discussed a range of related issues, including sponsored clearing solutions, counterparty onboarding, e-trading, and potential regulatory interventions to improve, or even backstop, repo market liquidity.

Next steps: The ERCC intends to hold a follow-up workshop in Q3 2022 to refine the key points and perspectives of these discussions with a view to producing a white paper outlining the main issues. This will form the basis of potential regulatory engagement, including the possibility of a further workshop including regulators and policy makers, most likely in Q4 2022.

@ **Contact: Andy Hill**
andy.hill@icmagroup.org

CRR3: the treatment of SFT risk weights under the standardised approach

The new EU banking package published in October 2021 implements the Final Basel III into banking regulation in the form of the Capital Requirements Regulation (CRR3) and the Capital Requirements Directive (CRD6). One of the key elements of the Final Basel III framework is a more granular but less sensitive recalibration of the credit risk (CR) weighting calculations under the Standardised Approach (SA). This is particularly punitive in the case of SFTs since it does not recognise the relatively short-term nature of SFTs in the case of exposures to non-banks. Accordingly, this results in the Risk Weighted Asset (RWA) computations for SFTs with such counterparties under the SA multiples of those calculated under banks' Internal Model Approach (IMA).

This contrasts with the treatment of short-term exposures to banks, for which Final Basel III recognises their lower risk. There is no explanation as to why non-bank short-term exposures are treated less favourably.

Banks that rely on IMA do have more flexibility in adjusting RWAs for SFTs to account for both internal ratings and the relatively short maturities of the underlying transactions. However, Final Basel III also introduces the output floor (OF), which sets a minimum for capital requirements calculated under banks' IMAs at 72.5% of those required under the SA. In the case of SFTs, the unequal treatment for RWAs under the SA will be problematic for banks that use the SA or the IMA, with considerable impacts for SFT capital requirements. In turn, this will affect the cost of offering this service, as well as liquidity in the related securities markets. This will impact securities investors such as insurance and pension funds, as well as securities issuers, including corporates and sovereigns.

This comes at a time when the ability of many different investors to access the repo market on a consistent basis is very much in the spotlight (see the article on the ERCC buy-side workshop in this section), as are concerns about dislocations in the euro area sovereign bond market following the wind-down of the ECB purchase programmes. Making short-term sovereign repo markets more expensive and less liquid for critical market participants seems counterintuitive.

The ICMA ERCC is proposing that the RWA calculation for short maturity SFTs under the SA be adjusted to reflect better their short-term nature. This would also be consistent with other aspects of the SA that take into account the short-term nature of certain exposures, as well as recognising the importance of a healthy and vibrant European repo market.

@ **Contact: Andy Hill**
andy.hill@icmagroup.org

Settlement efficiency

Further to the publication of the ERCC's settlement efficiency discussion paper in February, released on the same day that the CSDR cash penalties went live, the industry discussion continues on the most effective tools to strengthen settlement efficiency in Europe. In March, the paper and related ERCC best practice recommendations were presented to ICMA's Secondary Market Practices Committee (SMPC) and received a positive response. As noted in the Secondary Markets section, a modified version of the ERCC recommendations applicable to secondary bond markets was subsequently approved by the SMPC and published on 22 June 2022.

On 24 June, ERCC members gathered for a follow-up workshop to review progress on settlement efficiency nearly five months into the CSDR penalties regime, focusing particularly on progress with the roll-out of auto-partialling and on what else the industry can do to optimise usage of this important tool. While the discussion on this topic continues, the ERCC is also looking at a number of other relevant tools that have been considered as part of the settlement efficiency initiative, including the shaping of settlement instructions and auto-borrowing programmes offered by a number of (I)CSDs.

@ **Contact: Alexander Westphal**
alexander.westphal@icmagroup.org

Repo and sustainability

S ICMA continues to drive the work on repo and sustainability together with the members of ICMA's Repo and Sustainability Taskforce. As a first public output of the Taskforce, the group decided to reflect on recent market developments and prepare a paper to outline some high-level categorisations for sustainability-related repo products and transactions that have emerged in the market. The draft paper outline was shared and discussed at the second Taskforce meeting held in April where firms with relevant experience were also invited to present some practical use cases. The full version of the paper will be circulated for review in the coming weeks. A short update on recent progress of the Taskforce was presented at the

8th Annual General Meeting of the Principles. The topic also featured in the following conference which included a panel on Sustainable Commercial Paper and Repo.

Contact: Zhan Chen
zhan.chen@icmagroup.org

SFTR reporting

ESMA focus on SFTR data quality: On 1 April, ESMA published the *EMIR and SFTR Data Quality Report 2021*. This is the second edition of the report on data quality under EMIR and SFTR. The report provides a holistic view of the state of play of both regimes as regards the quality of the reported data as well as the actions that the NCAs and ESMA are taking to improve data quality.

In June, ESMA reached out to the key trade associations with a stake in SFTR (ICMA, ISLA, AFME) to discuss the quality of the public data elements that are being published under SFTR. The request followed ESMA's initial quality assessment based on the public data for 2021. A list of identified issues has been shared with the associations along with an invitation to a roundtable discussion on 28 June to go through those issues in more detail. Following the discussion, ICMA and the other associations, supported by their respective working groups, are working on written follow-up comments for ESMA. In related news, ESMA indicated that they are not planning to launch the anticipated broader review of SFTR this year which was initially expected to go ahead in 2022.

Reporting of issuer LEIs: On the UK side, the FCA announced on 1 April the extension of a forbearance period for the reporting of non-EEA third country issuer LEIs until 13 October 2022. This is now in line with the current EU deadline. The FCA announcement followed recent discussions with ICMA on the issue and came just ahead of the end of the UK forbearance period which was due to expire on 13 April. However, as the October deadline for both UK and EU is approaching, further discussions with ESMA and the FCA will be needed on a longer term solution to the issue, as issuer LEI coverage remains sketchy in some major jurisdictions outside of Europe.

Go-live of reconciliation phase 3: The third phase of SFTR reconciliation went live on 11 April 2022, with four additional data fields becoming mandatory for matching. While only few in number, the fields included critical data points such as the price and collateral market value which are particularly challenging in terms of matching, especially as the related ESMA guidance has been limited.

Reporting of historical corrections: While the ERCC's SFTR Task Force continues to meet on a monthly basis, ICMA has also been holding a series of *ad hoc* workshops with interested members to discuss options for the reporting of historical corrections. As part of the workshops, participants have reviewed the current problem, and also touched on the related issue of settlement fails reporting. Based on the discussions, ICMA is preparing a short briefing note on the topic outlining the related issues and potential solutions. This specific guidance will be incorporated in the detailed ERCC Recommendations for Reporting under SFTR.

Contact: Alexander Westphal and Zhan Chen
alexander.westphal@icmagroup.org
zhan.chen@icmagroup.org

Other repo market developments

Money Market Fund access to third country repo clearing: The ERCC is reaching out to the European Commission to flag a potential restriction in the EU's Money Market Funds Regulation that makes it difficult for EU regulated money market funds to access sponsored clearing for repo with third country CCPs; in particular for sterling repo.

ECB amends monetary policy implementation guidelines: On 5 May 2022, the ECB announced the first step in gradually phasing out the pandemic collateral easing measures introduced in April 2020.

Contact: Alexander Westphal
alexander.westphal@icmagroup.org

ERCC General Meetings

ERCC Spring AGM: The ERCC's spring Annual General Meeting (AGM) was held on 26 April 2022 as a virtual event. As part of the agenda, a panel of market practitioners took a closer look at the particular challenges that the buy side is facing in relation to repo. Another key topic discussed was the increasing importance of digitisation in the repo market, with presentations about our two flagship projects in this space: ICMA's Common Domain Model for repo and bonds as well as the GMRA clause library and taxonomy project which ICMA is developing. A recording of the full event can be accessed here (member login required). Please also check out the related series of pre-recorded ERCC updates which were circulated to participants ahead of the event.

Upcoming autumn ERCC General Meeting in Luxembourg: We are pleased to announce that the next ERCC General Meeting will take place on 14 September 2022 in Luxembourg, kindly hosted by Clearstream in the margins of the annual GFF Summit. The ERCC meeting will be held in the afternoon of the first day of the conference, from 16:30-18:30 local time. This will be the first in-person ERCC General Meeting since November 2019, so we look forward to seeing many members in Luxembourg. Please already save the date. Registrations will open soon.

Contact: Alexander Westphal
alexander.westphal@icmagroup.org

A ICMA Guides to Asia Repo Markets

ICMA has played a significant role in promoting the international repo market since the 1990s. This includes the development of the Global Master Repurchase Agreement (GMRA), which has become the principal master agreement for cross-border repos globally, as well as for many domestic repo markets. ICMA has supported the development of robust and efficient repo markets in Asia, Africa and Latin America through training, capacity building and guidance to local trade associations and regulators.

As part of its continued commitment to promoting the development of repo markets around the world, ICMA is publishing a series of reports on domestic repo markets in the Asia-Pacific region, describing the main features of each market including market infrastructure, types of repo and collateral, market participants, post trade operations and the legal and regulatory framework.

Guides covering the markets of Vietnam, Indonesia, Japan (Japanese language version), and the Philippines have been published so far in 2022. Guides covering six other Asian jurisdictions will be published over the next several months. (The guides are available to ICMA members only.)

Key findings from the guides are summarised below.

- *Vietnam:* Efforts are continuing to foster the development of the domestic market and encourage its transition to true repos. Some of the fundamental building blocks to support a repo market are gradually being put in place by the authorities, in particular, more structured government bond issuance, including concentrating new issuance in a few benchmarks. However, major obstacles persist, including a legal framework incompatible with true repo but also an inefficient market infrastructure and a lack of regulatory incentives to collateralize.
- *Indonesia:* The bulk of repo continues to be between banks and Bank Indonesia, rather than being interbank. There is very little repo between banks and non-banks; in addition to legal issues, the trading of repo by banks and non-banks faces operational, regulatory and tax obstacles. For bank funding, repo must compete with a ready supply of alternative money market instruments, notably, unsecured interbank deposits and FX swaps. While interbank repo benefits from higher risk limits because it collateralized, deal size in the unsecured interbank market is very much larger, which makes unsecured deposits a more efficient funding tool.
- *Japan:* This is the oldest and most developed repo market in Asia. It is at the core of a highly sophisticated financial market and supports the second largest domestic government bond market. The Japanese financial markets have undergone a long transition from emerging to developed market that began in earnest in the 1970s. Reforms introduced over four decades have moved repo in Japan from an idiosyncratic niche to a central pillar of the domestic financial market that is now aligned with international practice and integrated into the international market.
- *Philippines:* Despite being one of the few countries in the region to have a repo-friendly legal framework, the repo market has not taken off due to a number of challenges. These include a lack of incentives for banks to collateralize money market transactions given plentiful retail deposits, a structural excess of central bank liquidity in the money market, the access to FX swaps (which provide an established and cheaper tool for liquidity management), and the illiquidity of the Government securities market.

Sustainable Finance

by **Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck, Ozgur Altun** and **Julia Rodkiewicz**





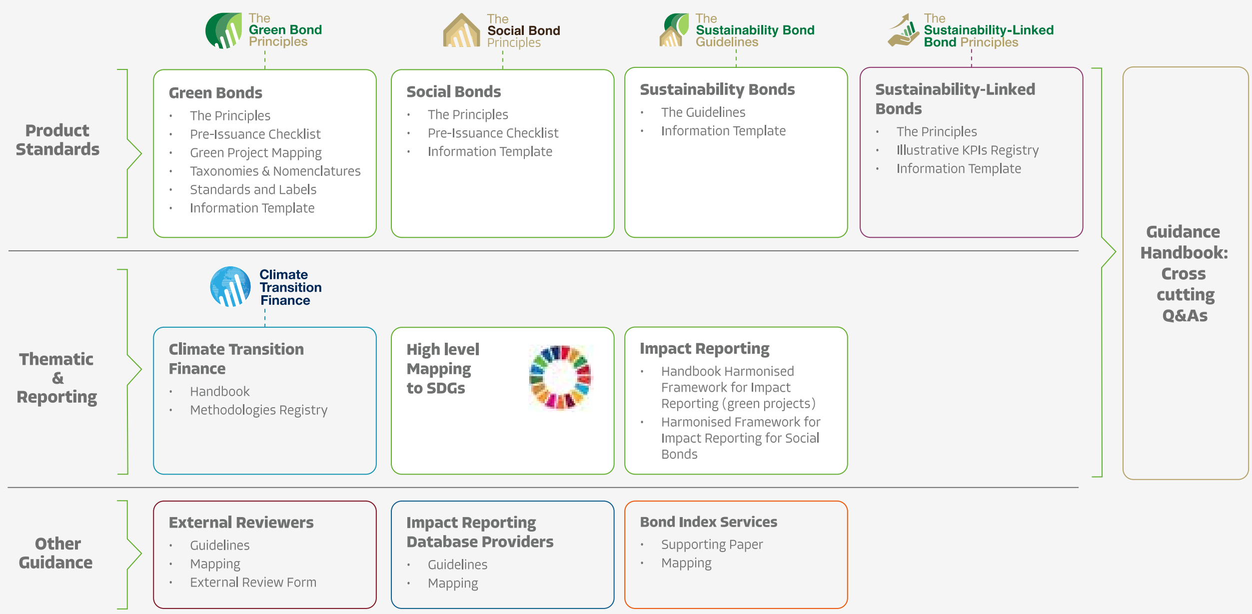
Introduction

This update reports on the new and updated publications released by the Principles in June 2022 during its Annual Conference. It also summarises an important ICMA paper including an analysis and recommendations concerning the EU Green Bond Standard. It otherwise provides a summary of recent market developments. We also cover other regulatory developments including initial drafts for future European and international corporate reporting requirements as well as Taxonomy developments in Singapore.

2022 Update of the Principles

The Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines and Sustainability-Linked Bond Principles (the "Principles"), the international market initiative supported by ICMA, announced on 28 June 2022 new and updated publications including new definitions for green securitisation, updated key performance indicators for Sustainability-Linked Bonds and new resources for climate transition finance. The Principles provide the global standard for a USD2.4 trillion market, representing the largest source of market finance dedicated to sustainability and climate transition available internationally to corporates, banks and SSAs.

2022 overview and updates of the Principles



Specific publications and resources released on 28 June 2022 are:

- New definitions for green securitisation (Secured Green Collateral Bond, Secured Green Standard Bond) clarifying terminology and market practice notably for collateral. A related Q&A is also being released (including sustainability criteria relating to collateral, no double counting principles, reporting requirements, etc.). Similar guidance is also available for social bond securitisation.
- An updated registry of approximately 300 key performance indicators (KPIs) for Sustainability-Linked Bonds, the fastest growing segment of the sustainable bond market in 2021. The KPIs are classified by sector and between core and secondary indicators following the input of over 90 leading market participants and stakeholders. An accompanying Q&A also addresses among other issues, the materiality assessment of KPIs, which has been a topic of debate among market participants and stakeholders.
- A new Climate Transition Finance (CTF) Methodologies registry has been created with a list of tools to specifically help issuers, investors, or financial intermediaries validate their emission reduction trajectories/pathways as "science-based". Similarly, the Guidelines for External Reviews have been updated to facilitate the assessment of alignment with the existing Climate Transition Finance Handbook (CTFH).

The Principles also released additional guidance, updates and templates, specifically:

- New metrics for impact reporting (i) for Green Projects relating to *environmentally sustainable management of living natural resources and land use,* and (ii) for Social Projects (including an enriched list of social indicators and impact confirmation on target population).
- Updated high-level mapping to the United Nations' Sustainable Development Goals (SDGs).
- A recommendations paper and proposed information template for providers of Green, Social and Sustainability Bond index services.
- Pre-issuance Checklist for Green Bonds/Green Bond Programmes and an updated Sustainable Bond/Bond Programme Information Template (including disclosure of the issuer's sustainability strategy).

The standards and guidance from the Principles are developed with the input of an initiative of over 400 market participants and stakeholders, as well as the participation of many other organisations through technical working groups. In 2021, the Principles were referenced by an estimated 98% of sustainable bonds volume issued globally and have been translated into 25 languages. The conference also featured discussions on workstreams concerning the application of the Principles in a wider context, including commercial paper and repo, as well as high yield and emerging markets.

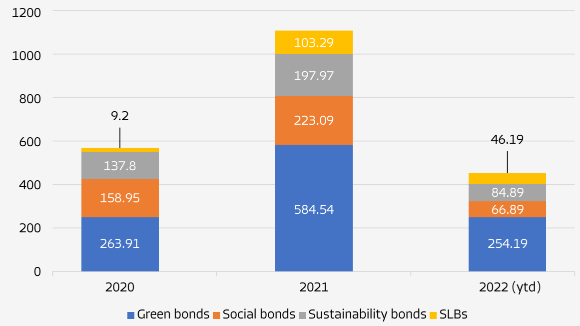
The 2022 Conference of the Principles

The 2022 Conference of the Principles, sponsored by 12 members of its Executive Committee, was held in hybrid format on 28 June hosted by the European Bank for Reconstruction and Development (EBRD) in London. Physical attendance was by invitation due to space constraints with approximately 200 participants while near 700 persons registered for the livestreaming. Key announcements were made concerning the 2022 deliverables and initiatives of the Principles as detailed separately in this section. Opened by EBRD's President, Odile Renaud-Basso, the conference featured senior speakers including Patricio Sepúlveda Carmona, Head of the Public Debt Office, Ministry of Finance, Chile; Tim Gould, Chief Energy Economist of the International Energy Agency (IEA); and Sir Robert Stheeman, Chief Executive Officer, UK Debt Management Office. (The video recording of the public Conference is available online.) The results of the 2022 Executive Committee election were announced during the AGM of the Principles that preceded the public conference with most organisations seeing their mandates renewed while NNIP joined as a new investor representative.

Sustainable bond market update

The sustainable bond issuance volume in 2022 has reached over USD452 billion in total as of end of June. This represents an overall 20% decrease from the volume issued in the same period in 2021. Green bonds remain the largest segment representing more than half of the transaction volume in H1. Sustainability-Linked Bonds (SLBs) continue to represent 10% of issuance consolidating their progress of last year, sustainability bonds remain also stable at 19%, while social bonds regress to around 15% (compared to 20% in 2021).

Development of the sustainable bond market (2020 to 2022) in USDbn



Source: Bloomberg data obtained on 30.06.2022

In terms of remarkable transactions from SSAs in Q2, Austria (a EUR4 billion, 27-year green bond), Canada (a CAD5 billion, 7.5-year green bond), the International Fund for Agricultural Development (a USD100 million sustainability bond focused among other areas on food security), the Republic of Philippines (a USD1 billion 25-year sustainability bond), all issued their inaugural sustainable bonds. CEB also issued two social bonds (each EUR1 billion) focused on support for Ukrainian refugees while France issued a first inflation-linked green bond of EUR4 billion.

In the FI sector, the BDO Bank from Philippines issued a USD100 million "blue bond" through an investment from IFC. German issuers such as Auxmoney (a EUR225 million social ABS), Berlin Hyp (a EUR750 million 10-year Pfandbrief), and Deutsche Kreditbank (a EUR500 million 10-year SB) have also been active by issuing social bonds in the same quarter. We also note that a number of Chinese FIs recently issued green bonds that align with the Common Ground Taxonomy. American Express also made its entry into the market with a USD1 billion sustainability bond.

Lastly for corporates, Q2 was marked by the entry of the waste and water management firm Suez in the sustainable bond market (a EUR2.6 billion green bond). TenneT issued the largest ever corporate green bond of EUR3.85 billion in four tranches. Inaugural SLB issuances in Q2 underscored a continuous interest of corporates in this innovative product with L'Oréal (EUR1.25 billion 4.25 year SLB), Sanofi (a EUR650 million 7-years SLB), and the Finnish consumer packaging firm Huhtamäki Oyj (a EUR500 million 5-year SLB) coming to market. The Singaporean communication technology company Singtel also issued a "digital" SLB of USD1 billion.

Update on the EU Green Bond Standard

Creating a European Green Bond Standard (EU GBS) features highly on the EU's sustainable finance agenda. ICMA has been involved in the process since inception with its participation in the EU's High-Level Expert Group as well as the Technical Expert Group and now the Platform on Sustainable Finance.

As background, in July 2021, the European Commission released its proposal for a Regulation on European green bonds (EuGB Regulation) proposing a voluntary standard for green bonds that would be linked to the EU Taxonomy, building mostly on the TEG's recommendations. ICMA published a note on 8 July 2021 on this proposal, followed by a further commentary on 5 January 2022 on the proposed amendments of the *rapporteur* of the file in the European Parliament.

Most recently, both the European Council (see here) and the European Parliament (EP) (see here) have finalised their respective positions, ahead of the trialogue negotiations which are expected to start in July. On 22 June 2022, we published an updated paper which provides ICMA's views evaluating both the positive aspects and issues of concern regarding the current state of the file. The Climate Bonds Initiative expressed support for ICMA's analysis and recommendations.

In this respect, it is positive to see that the co-legislators have converged on the voluntary nature of the EU GBS. This is in line with the original objective of the Commission in developing an official "gold" standard and would avoid potential disruption to the existing and growing market that could otherwise occur. Secondly, significant progress has been achieved on the "grandfathering" issue. We reiterate our support for full grandfathering of the EU GBS designation during the entire term to maturity of the bond, and generally of Taxonomy-aligned allocations and commitments once made.

Nevertheless, our updated paper identifies several concerns that would likely hinder the success of the EU GBS as well as the future development of the overall sustainable bond market, in particular in the European Union. These are:

- *Potential liability and legal costs creating significant disincentives for issuers,* which are mainly caused by (i) a mandatory incorporation of an extended factsheet into prospectuses; (ii) a new civil liability provision related to Taxonomy-alignment rules (Art.12a EP text); (iii) the requirement for a binding compliance clause towards investors that may lead to cross-defaults (Art.12-4 Council text).
- *Only partial solution on the usability challenges of the EU Taxonomy being proposed*, as neither the Council position of up to 20% of flexibility pocket (only applicable for activities where TSC do not exist and some official sector climate finance flows), nor the EP's proposal for a "Taxonomy equivalency" mechanism (for international situations only), offer a comprehensive solution against the Taxonomy's usability issues. For background, we identify in our paper *Ensuring the Usability of the EU Taxonomy* (February 2022) these usability challenges holistically while putting forward our recommendations.
- *Unintended barriers to financing Taxonomy-aligned CapEx plans,* as the financing of transitional activities under a CapEx plan would be capped to 2-years maximum implementation timeline in the EP text. Also, the EP text requires an upfront disclosure on the annual intermediate steps under such CapEx plans as well as annual external verification on the implementation of those steps in allocation reports. These rules are generally more onerous compared with the Article 8 Delegated Regulation whereas they would potentially refer to the same CapEx plan of an entity in practice.

- *Duplicative extension of disclosure requirements to all sustainable bond issuers and related-implementation challenges,* as the EP text imposes a variety of disclosure obligations to all issuers of green use of proceeds (UoPs) bonds as well as SLBs with environment focus. These include due diligence policies related to principal adverse impacts, "audited" transition plans, entity-level Taxonomy alignment, which are duplicative of other existing or upcoming sustainable finance regulations and may lead to complexity and confusion. They also create practical implementation challenges that we detail in our updated paper.

The following table compares the key positions among the EU co-legislators in a summary format.

Key issues	European Commission	Council	EP
Grandfathering	Partial 5 years	Full	Partial 5 years for UoPs other than debt (with however no forced re-allocation of already allocated proceeds) and 10-years (for debt financing)
TSC flexibility	No	Up to 20% applicable only for activities where there is no TSC and some official sector climate finance flows	No, but an international "Taxonomy equivalency" mechanism has been proposed
Voluntary/ Mandatory	Voluntary	Voluntary	Voluntary, but with a review clause
Scope	EU GBS + External Reviewers (ERs) of EuGBs	EU GBS + ERs of EuGBs	EU GBS + all ERs (practically) + Mandatory disclosure requirements for all green UoPs bonds and SLBs with environmental themes

Other regulatory developments and market initiatives

On 21 June 2022, the European Council and European Parliament reached a provisional political agreement on the Corporate Sustainability Reporting Directive (CSRD). CSRD is an integral part of the EU's sustainable finance agenda and the European Green Deal. Under CSRD, compared to its predecessor the Non-financial Reporting Directive (NFRD), a broader set of large companies, as well as listed SMEs, will also now be required to report on sustainability. More concretely, the new Directive will apply to all large companies (with over 250 employees and a 40 million euro turnover, as defined in the Accounting Directive), whether listed or not. SMEs will however benefit from a transition period, meaning that they will be exempted from the application of the Directive until 2028. For non-European companies, the requirement to provide a sustainability report applies to all companies generating a net turnover of €150 million in the EU and which have at least one subsidiary or branch in the EU. These companies must provide a report on their ESG impacts as defined in the CSRD. Finally, CSRD is introducing mandatory corporate sustainability reporting standards which are currently being developed by the European Financial Reporting Advisory Group (EFRAG).

The EFRAG which is mandated under CSRD to create mandatory corporate sustainability reporting standards on 29 April 2022 launched a consultation on cross-cutting standards, and environmental, social and governance (ESG) standards. The cross-cutting standards (ESRS 1 and 2) address disclosures on matters that are crucial to the relationship between sustainability matters and the company's strategy and business model, its governance and organisation, and its materiality assessment. Following the concept of double materiality, companies have to identify their material sustainability-related impacts ("inside-out") as well as risks and opportunities ("outside-in"). ESG standards set disclosure requirements related to sustainability impacts, risks and opportunities that are deemed to be material for all entities, regardless of the sectors in which they operate, covering information such as: the policies, targets, actions and action plans, resources adopted by the entity on a given sustainability topic or subtopic; and corresponding performance measurement metrics for each sustainability topic or subtopic. EFRAG has the ambition to submit the first set of draft European Sustainability Reporting Standards (ESRS) to the European Commission by November 2022. Sector specific standards and SME proportionate standards will be coming at a later stage. The consultation period ends on 8 August 2022.

Consultation on Singapore Taxonomy

Singapore's Green Finance Industry Taskforce (GFIT), supported by MAS, issued the second consultation paper on a Singapore Taxonomy in May 2022. The Taxonomy adopts a traffic light system, using thresholds and criteria to differentiate an economy activity/project/asset's contribution to Environmental Objectives such as climate change mitigation.

It features five environmental objectives and adopts the three elements of:

(i) Substantial Contribution to one Environmental Objective,

(ii) Do No Significant Harm (DNSH) to any other Environmental Objectives, and

(iii) Minimum Social Safeguards (MSS).

While the first consultation, to which ICMA responded in March 2021, explained the high-level design, structure and focus sectors of a proposed Singapore Taxonomy, this second consultation paper proposes detailed thresholds and criteria for three of the focus sectors in relation to the environmental objective of climate change mitigation. It also provides a step-by-step guide for financial institutions and companies to apply the Taxonomy. Criteria and thresholds for the remaining focus sectors and the other four Environmental Objectives, as well as DNSH and MSS requirements, will be consulted in subsequent publications of the GFIT. ICMA responded to this second consultation paper in June 2022. We welcomed that the proposed Singapore Taxonomy uses the same or equivalent metrics as the EU Taxonomy and considers the EU Taxonomy criteria as a first option for "green" criteria. This will greatly promote interoperability and consistency between the Singapore Taxonomy and other national and regional taxonomies. In our response we also highlighted a few important usability issues based on ICMA's experience with the EU Taxonomy, made suggestions for a practical design and implementation of the Singapore Taxonomy, and sought clarification on the details of the potential use of the taxonomy for labelled bonds and disclosures, especially the applicability and usability of the amber categories.

Announcement on guide for *Bonds to Finance the Blue Economy*

ICMA, together with the Asian Development Bank, the International Finance Corporation, the UNEP Finance Initiative and the UN Global Compact created a practitioner's guide for *Bonds to Finance the Blue Economy*. This initiative was publicly announced on 28 June 2022 during the UN Ocean Conference in Lisbon, Portugal. A consultation with selected parties will follow before final guidance will be publicly released later this year. Similar to climate transition and gender equality, the blue economy is a growing theme that can be financed by issuing sustainable bonds. The paper therefore is intended to act as additional thematic guidance for issuers seeking to utilise use of proceeds (UOP) bonds to finance blue projects and can be used in conjunction with the Principles. It also points to the potential future use of sustainability-linked bonds (SLBs) towards the achievement of an issuer's strategy incorporating blue key performance indicators (KPIs). The Green Bond Principles (GBP) recognise "blue bonds" as bond issuances with the objective of emphasising the importance of the sustainable use of maritime resources and of the promotion of related sustainable economic activities.

Contacts: Nicholas Pfaff, Valérie Guillaumin, Simone Utermarck and Ozgur Altun
nicholas.pfaff@icmagroup.org
valerie.guillaumin@icmagrou.org
simone.utermarck@icmagroup.org
ozgur.altun@icmagroup.org

Asset Management



by **Katie Kelly, Irene Rey and Kyra Brown**

Targeted consultation on EU Money Market Fund Regulation

ICMA recently responded to the European Commission's targeted consultation on the functioning of the Money Market Fund Regulation (MMFR). At a high level, the ICMA response suggested a shift of focus away from money market fund (MMF) structures towards the *efficiency* and *resilience* of the underlying market, referring to the initiatives and recommendations in the ICMA White Paper, *The European Commercial Paper and Certificates of Deposit Market*. The response also highlighted the difficulties with suggested amendments to the MMFR, such as such as the fact that borrowers would lose the benefits of cost savings, diversification and flexibility of funding, access to currencies, and would have to look elsewhere for another investor base if low volatility net asset value funds (LVNAVs) or constant volatility net asset value funds (CNAVs) were no longer available. Loss of LVNAVs or CNAVs could also drive investors to other bank products which may be riskier, less transparent or are outside the EU-regulated financial market.

The response suggested that strengthening LVNAVs' liquidity requirements or permitting the use of liquidity management tools (LMTs) would ensure they can meet redemptions, maintain the availability of short-term funding for borrowers, and offer a stable net asset value for investors, while also cautioning on the design of LMTs and any mandatory directions as to their use.

Elsewhere, amid concerns that underlying vulnerabilities within MMFs and threats to financial stability remain after the global pandemic, the Financial Conduct Authority in the UK has released a discussion paper seeking views on how to strengthen the resilience of MMFs, after which it will decide whether to formally consult on one or more MMF reform proposals. ICMA is considering its response to this discussion paper.

@ **Contacts: Katie Kelly**
katie.kelly@icmagroup.org

AIFMD/UCITS and ELTIF: AMIC advocacy update

Under the guidance of the ICMA Asset Management and Investors Council (AMIC) Risk Management Working Group, AMIC drafted a position paper on the European Commission's (EC) proposal on AIFMD/UCITS and ELTIF reviews and circulated it to key policy makers including the Council of EU and Members of the European Parliament (MEPs). In this position paper, AMIC identified key priority areas and made specific suggestions for policy makers to take into consideration in responding to the European Commission's report. The AMIC position in response to the European Commission proposal is detailed in a previous QR article.

AMIC organised a number of bilateral meetings with representatives from EU Ministries of Finance and with the participation of AMIC members to discuss the AIFMD, UCITS and ELTIF reviews. Representatives of the French Treasury were also invited to participate in the March AMIC ExCom meeting to share their perspective on the files.

On AIFMD, AMIC has since focused its latest comments on new provisions debated in the Council for a leverage cap, limitations in shareholder loans and UCITS reporting requirements. AMIC has begun its engagement with MEPs now that discussions have moved to the European Parliament.

Isabel Benjumea MEP, the lead on the AIFMD file in the European Parliament's Committee on Economic and Monetary Affairs (ECON), published the ECON draft report in May, which included a separate set of additional amendments to AIFMD. AMIC welcomed this report, which included additional proposals to the European Commission review, such as (i) extending the definition of professional investor, (ii) extending the scope of permitted activities for AIFMs to include benchmark administration and credit-servicing as "top-up permissions", and (iii) permitting AIFMs to carry out any other "ancillary service" which is not a MiFID II investment service.

The Council General Approach has now been published, and AMIC is considering its position on this.

On ELTIF, AMIC has provided feedback of support for the ECON draft report, especially with respect to the proposals to further raise the market capitalisation threshold from €1 billion to €2 billion and added derogation allowing for open-ended ELTIFs. AMIC has also raised some concerns on the addition of sustainability disclosure requirements (amendments proposed by ECON), cautioning that requirements which are additional to, or inconsistent with those which apply under the Sustainable Finance Disclosure Regulation (SFDR) and Taxonomy Regulation (TR) should be avoided where possible. This is because of the risk that these will introduce further complexity and fragmentation whilst the implementation of several pieces of focused sustainable finance regulation are still underway. We understand that an optional sub-category for an "environmentally sustainable" ELTIF is currently being debated in the Parliament. There are some questions on the viability of a product vehicle that is restricted to investment in Taxonomy-aligned assets at this time.

We expect the Trilogue discussions to start imminently now that the European Parliament Plenary has adopted its position (20 June 2022), following the Council's position

Timeline	*AIFMD/UCITS*	*ELTIF*
European Commission	25 November 2021 – EC published AIFMD/UCITS proposal	25 November 2021 – EC published ELTIF proposal
European Council	21 June 2022 – Council General Approach published	24 May 2022 – Council General approach published
European Parliament	16 May – Rapporteur, Isabel Benjumea ECON Draft report published 27 June - Deadline for amendments from MEPs in the EP ECON Committee. 26 September – Expected Final ECON Committee vote on its report Approval in EP's Plenary – possibly in the autumn 2022	14 March – Rapporteur, Michiel Hoogeveen, ECON Draft report published 20 April –MEPs in the EP ECON Committee have submitted their amendments to the ELTIF draft report 20 June – Final ECON Committee vote on its report 20 June – ECON Committee adopted report in the Plenary
Trilogues	Trilogues between the EP and Council (with the EC presence) with a view to finding an agreement on a combined version of the EP's and Council's amendments to AIFMD– expected to start under the Czech Presidency of the Council of the EU in the autumn of 2022	Trilogues between the EP and Council (with the EC presence) with a view to finding an agreement on a combined version of the EP's and Council's amendments to ELTIF – expected to start under the Czech Presidency of the Council of the EU in the second half of 2022

@ **Contacts: Irene Rey and Kyra Brown**
irene.rey@icmagroup.org kyra.brown@icmagroup.org

S AMIC sustainable finance activities

Response to ESMA consultation paper on suitability guidelines: On 27 April 2022, AMIC submitted a response to ESMA's consultation on guidelines on certain aspects of the MiFID II suitability requirements. In its response, AMIC highlighted the implementation challenges of the 2 August application date from a product manufacturer, distributor and end-investor perspective; and made specific suggestions on the proposed draft guidelines to help the clients assessment process and align the final guidelines to the DA. AMIC recommended a "no action" letter from the ESAs advising NCAs not to prioritize supervisory action towards implementing sustainability preferences in the MiFID II suitability assessment as of 2 August 2022.

ESG and AMIC Securitisation Working Group (WG) meeting: In May 2022 the ESAs European Supervisory Authorities (EBA, EIOPA and ESMA) published a consultation paper setting out proposals for draft Regulatory Technical Standards (RTS) on the content, methodologies and presentation of information in respect of the sustainability indicators for Simple, Transparent and Standardised (STS) securitisations. For background purposes, in 2021 AMIC set up an *ad hoc* working group to discuss ESG transparency of Asset-Backed Securities in 2021. The group focused on ESG KPIs for auto-loans/leases ABS, RMBS and CLOs, issuing a statement on current challenges, a discussion paper focusing on ESG KPIs for auto-loans/leases ABS and a position paper in October. At the request of members, the working group was reconvened for a meeting on 27 May to discuss any concerns or omissions in the proposals. The CP proposals are considered to be broadly in line with the recommendations made by the group although limited in scope to STS securitisations. AMIC secretariat joined the AFME working group drafting the AFME response and shared the AFME drafts with members for their comments.

The group also discussed appetite for a review of the AFME ESG questionnaire in order to include additional questions. Members were asked to express interest in approaching AFME on a revision of the questionnaire.

Meeting of the AMIC Sustainable Finance Working Group with the European Commission: A meeting of the SFWG took place on 6 July with Alain Deckers, Head of Asset Management at DG FISMA, as a guest speaker. Prior to taking on his current role, Alain Deckers was Vice -chair of the EFRAG European Lab Steering Group and has a comprehensive understanding of Sustainable Finance regulatory developments. The meeting provided the opportunity to discuss recent developments and upcoming areas of focus for AMIC.

@ **Contacts: Irene Rey and Kyra Brown**
irene.rey@icmagroup.org
kyra.brown@icmagroup.org

S EU sustainable finance regulatory developments

We summarise some of the key developments below. These are primarily clarifications to help firms interpret and apply the SFDR and Taxonomy rules, guidance on supervision of compliance with these rules, and new mandates for targeted revisions of these regulations as the environment continues to evolve.

ESMA questions and EC response on clarifications in relation to SFDR

In a document published on 13 May 2022, ESMA submitted 10 questions related to interpretation of SFDR and TR. The EC responded in what was considered a very rapid timeframe (published on 27 May).

These questions and subsequent answers included some critical clarifications, including for financial advisors in respect of the timing of disclosures to clients, consideration of principal adverse impact (PAI), and the scope of instruments for which they have to apply SFDR requirements.

The EC confirmed that choosing to apply the PAI regime at product level did not mean a firm (below the threshold for entity level reporting) did not have to also comply with entity-level PAI reporting.

They confirmed the application of SFDR disclosure requirements do apply to pre-existing open and closed products. They provided guidance on the type of instrument the good governance requirements for Article 8/9 products applied to, and whether there was discretion on what it means when good governance is not met. (There is not.)

The most detailed responses are in relation to Taxonomy disclosures. The EC provided clarification on whether disclosures must be made even where there is no binding commitment to taxonomy aligned investments in pre-contractual documents and on the use of estimates and qualitative disclosures.

ESMA supervisory briefing on integration of sustainability risks and disclosures

On 31 May 2022, ESMA published a supervisory briefing which, although primarily aimed at National Competent Authorities (NCAs), is of key interest to investment managers as it provides indications of ESMAs (and therefore NCAs) expectations on compliance with sustainable finance related regulations, including SFDR, Taxonomy Regulation and the amended delegated acts introducing new provisions to UCITS, AIFMD and MiFID.

In the briefing, ESMA sets out recommendations on supervisory approaches to help identify areas in which greenwashing might occur, also on over-disclosure and use of ESG-terminology in fund names. The guidance sets out areas of focus with respect to fund documentation and marketing material, websites, periodic reporting, investment objectives and strategy and the integration of sustainability risks in disclosures and policies, including risk management, remuneration, conflicts of interest and monitoring of delegation.

In terms of practical supervisory approaches, ESMA suggests the use of checklists to assess compliance with the relevant requirements and set out areas in which breaches of the rules may be most likely to occur. For verification purposes, they recommend sample testing, questionnaires, on-site and desk-based reviews. ESMA also sets out expectations for depositories when performing their due diligence and oversite responsibilities which firms should also take note of. The ultimate responsibility lies with the NCAs to determine the approach and actions taken however the briefing should also help firms perform a sense check on the areas on which they may be questioned.

ESAs clarification on key areas of SFDR

The aim of the clarifications (on 2 June 2022) is to assist with the interpretation of the ESAs' draft RTS under the SFDR. They refer to the ESAs' Final Reports of February 2022 and October 2021 (not the draft RTS adopted on 6 April 2022 but there should be little difference between these and the Final Reports). The clarifications cover:

- *Principal adverse impact (PAI) disclosure of investment decisions on sustainability factors,* setting out uses of "sustainability indicators", PAI calculation methodology, confirming the look through approach does apply, and further guidance on the adverse indicators in Tables 1-3 of Annex I.

- *Pre-contractual and periodic disclosures for Article 8/9 products:* when a firm should update the disclosures (according to the sectoral legislation), and when the obligations apply from (anything published after January 2023).
- *Taxonomy and Do No Significant Harm (DNSH) disclosures*: there are some detailed comments on measurement and disclosure in relation to taxonomy, and clarification on the DNSH assessment under SFDR and the Taxonomy, different and both required; also, on the use of PAI for the assessment of DNSH.

ESAs' two mandates from the EC relating to SFDR

The ESAs received two mandates from the EC in April 2022 to revise the SFDR disclosures (published 6 May).

The first invites the ESAs to propose amendments in relation to the information to be provided in pre-contractual documents, on website and in periodic reports about the exposure to investments in fossil gas and nuclear energy activities. This is to reflect the provisions set out in the Complementary Climate Delegated Act (CDA). It is unclear if the CDA will be adopted as it is undergoing the scrutiny process of the European Parliament and Council and has been rejected at two Parliament meetings with plenary meeting to be held in early July. If a majority reject the CDA the EC will have to withdraw or amend the act. The deadline for the submission to the EC is 30 September so even if adopted we would not expect change to the SFDR RTS annexes this year.

The second mandate is more extensive in scope, inviting the ESAs to (i) streamline and develop further the regulatory framework, (ii) consider extending the lists of indicators for principal adverse impacts, as well as other indicators, and (iii) refine the content of all the indicators for adverse impacts and their respective definitions, applicable methodologies, metrics and presentation.

In addition, the mandate invites the ESAs to propose amendments regarding decarbonisation targets and to consider whether the financial products making taxonomy-aligned investments (referred to in Articles 5-6 of the Taxonomy Regulation) sufficiently address the disclosure and information on taxonomy-aligned economic activities. The deadline for input is at the latest within 12 months from the receipt of the letter (11 April 2023).

Contacts: Irene Rey and Kyra Brown
irene.rey@icmagroup.org
kyra.brown@icmagroup.org

FinTech in International Capital Markets


by **Gabriel Callsen and Rowan Varrall**

CDM for repo and bonds: phase 2

Following a period of consultation with members, ICMA launched phase 2 of the Common Domain Model (CDM) for repo and bonds in Q2 2022. Repo and collateral markets play a vital role in supporting market functioning. The overall objective of phase 2 is to promote market efficiency and innovation, with a focus on open repos, floating rate repos and repos with an extended notice period, known as "evergreens".

To this end, ICMA established a CDM Steering Committee to provide guidance on modelling priorities and technical input. As in phase 1, the "SteerCo" brings together banks, investors, market infrastructure providers including trading venues, CCPs and ICSDs, law firms as well as vendor firms.

Common standards are key to help automate workflows and reduce friction between trading, risk management, and settlement systems, amongst others. The initial focus of the group has been to draw up and agree on workflow models of lifecycle events and processes such as changes to a repo rate or re-rates, floating rate resets, and partial deliveries, amongst others, and is due to be completed by end of July.

As a next step, ICMA will be working with REGnosys, a technology firm currently hosting the CDM for ISDA, ISLA and ICMA on their modelling platform, Rosetta, to translate the repo workflow models into code. Using the CDM's unambiguous and codified representation of repo transactions will enable market participants to save costs, automate manual processes, but also explore novel technologies such as DLT that rely on a standardised representation of transactions.

To address common questions on how to implement the CDM, ICMA hosted a virtual workshop on 6 July 2022 (available as a recording). The workshop was aimed at operations, data modelling and IT integration experts and covered, amongst other topics, where the CDM fits into the application stack, delivery mechanisms (eg dynamic service or library), interaction with third party services, for example, in relation to calculations or reporting, software languages and messaging standards.

In parallel, ICMA, ISDA and ISLA launched on 10 May 2022 a request for proposal (RFP) for a third-party organisation to provide an open-source repository for the CDM. The RFP marks an important step following the MoU signed between the three associations in July 2021. The intention of the RFP is to make the CDM more accessible to a wider community for use and making contributions, facilitate the growth and maintenance of a community and promote uptake of the CDM.

Phase 2 is due to be completed by the end of 2022. ICMA's CDM for repo and bonds is subsequently due to be combined with ISDA's derivatives CDM, which also covers stock loans contributed by ISLA. Further information on ICMA's phase 2 roadmap, recordings and further documentation can be found on ICMA's dedicated CDM webpage. Members who would like to shape this cross-industry initiative or to learn more about its potential benefits are welcome to get in touch.

@ **Contact: Gabriel Callsen**
gabriel.callsen@icmagroup.org

ICMA response to ECB questionnaire on a wholesale digital euro

On 28 June 2022, ICMA submitted its response to the ECB questionnaire on financial market stakeholders' potential interest in the Eurosystem providing EUR central bank money settlement of wholesale transactions in the payments, securities settlement and collateral management domains using new technologies such as Distributed Ledger Technology (DLT).

ICMA's response to the questionnaire is based on views shared by members of its Blockchain Bonds Working Group and other ICMA constituencies, representing issuers, banks, investors, market infrastructures, and law firms.

ICMA considers a digital central bank money made available as a native digital asset issued by the Eurosystem, referred to hereafter as "wholesale digital euro", to be a cornerstone to support wholesale payments, securities settlement and collateral management in a DLT environment. This will enable next-generation automation and innovation through smart contracts, reduce friction and would also further support the EU's Capital Markets Union.

In conjunction with DLT-based securities, a wholesale digital euro is considered to offer the following key benefits compared to the existing TARGET platform:

(i) *Programmability:* the ability to pre-programme and automate hitherto manual and inefficient processes during the lifecycle of a security, provided a set of defined conditions are met. For example, cash movements for settlement, coupon payments, and other corporate actions.

(ii) *Efficiency and consistency:* Processing of both securities and cash transfer within an integrated DLT-based infrastructure is expected to increase both operational and capital efficiency, ensure settlement finality, reduce settlement fails and ultimately reduce funding costs, notably from a cross-border perspective.

(iii) *Reducing fragmentation:* A single, EU-wide, digital infrastructure for payments to support securities settlement and collateral management is expected to reduce market fragmentation, which persists despite the development of TARGET Services, thereby increasing attractiveness of the EU capital markets to international investors.

(iv) *Accessibility:* EUR central bank money is currently defined by its existence in TARGET accounts, linking it to a single, closed network operated by the Eurosystem. While the availability of a wholesale digital euro (a native digital asset, ie in the form of a "DLT token") for use on different DLT networks would expand the euro's reach, it would require appropriate governance arrangements, notably in relation to distribution, risk management and oversight, amongst others.

(v) *Competitiveness:* Future-proofing the role of EUR central bank money in light of the proliferation of private digital cash such as stablecoins, which may give rise to further fragmentation in wholesale payments, securities settlement and collateral management.

ICMA views a wholesale digital euro as a key requirement and end state in the long term (more than five years). Its development should be analysed, prepared, and resourced accordingly in the short term to pave the way for the digital transformation of capital markets. A "trigger solution" for wholesale payments through TARGET Services for DLT-based securities settlement and collateral management is not deemed a suitable alternative by many ICMA members, in particular from an investor's perspective. A key concern is that costs for an interim "trigger solution" will adversely impact funding of a wholesale digital euro.

The potential risks and ramifications of a wholesale digital euro across the financial system warrant further investigation, including:

(i) Design and characteristics of a wholesale digital euro, implications for bank funding, market functioning, monetary policy transmission, financial stability, privacy and data protection, as well as scalability and environmental aspects of DLT validation mechanisms.

(ii) Interoperability between a wholesale digital euro and retail digital euro, private and public blockchains, fungibility with conventional central bank money and interoperability with non-euro currencies, including potential lessons from cross-border initiatives such as the multiple CBDC bridge (mCBDC) project involving the BIS and other central banks.

(iii) Cross-border consistency: ICMA notes that central banks globally have adopted different definitions of central bank digital currency, for example, the use of DLT being a criterion for some but not for others. ICMA would welcome a consistent approach, in particular from a cross-border capital markets perspective.

(iv) Technology risks and mitigation of single point of failure scenarios, including an implementation roadmap to deploy a wholesale digital euro into capital markets safely, effectively and without causing disruption.

(v) Legal and regulatory aspects which affect directly (eg settlement finality) or indirectly (eg regulatory treatment of digital (DLT-based) securities across EU Member States the use of a wholesale digital euro for payments, securities settlement and collateral management.

Governance will be critical to the success of a wholesale digital euro. ICMA recommends the creation of a dedicated working group, bringing together ECB and market participants across the spectrum of capital markets, to develop a roadmap, provide technical input into design considerations and the operating model of a wholesale digital euro.

In light of the rapid evolution of technology and emergence of stablecoins, ICMA members strongly advocate for the ECB to reach a decision on next steps as a matter of urgency to enable the industry to allocate resources accordingly. While ICMA understands that making a final decision may require more time, any clarity on the avenues that may not be considered at this stage would equally be welcome in the interim.

@ **Contact: Gabriel Callsen**
gabriel.callsen@icmagroup.org

FinTech regulatory developments

EU Council, EU Parliament: agreement on MiCA

On 30 June 2022, the Council Presidency and the European Parliament reached a provisional agreement on the markets in crypto-assets (MiCA) proposal which covers issuers of unbacked crypto-assets, and so-called "stablecoins", as well as the trading venues and the wallets where crypto-assets are held. This regulatory framework will protect investors and preserve financial stability, while allowing innovation and fostering the attractiveness of the crypto-asset sector. This will bring more clarity in the European Union, as some member states already have national legislation for crypto-assets, but so far there had been no specific regulatory framework at EU level. The provisional agreement is subject to approval by the Council and the European Parliament before going through the formal adoption procedure.

EU Council: agreement on position on the ESAP

On 29 June 2022, the European Council agreed its position on three proposals creating the European Single Access Point (ESAP), which is the first action in the Capital Markets Union (CMU) Action Plan. The action aims at creating a single point of access to public financial and sustainability-related information about EU companies and EU investment products. In its position, the Council designs a gradual phasing in of the ESAP platform to allow for a robust implementation. Based on coherent phases this phasing-in will ensure that European regulations and directives will in accordance with their priority enter into the scope of ESAP between 2026 and 2030. This ensures that sufficient time is available to define and implement the required technical aspects of the project. The Council position also provides for a regular assessment of ESAP's functioning and a review clause that should guarantee the adequacy of the platform to the needs of its users and its technical efficiency.

BIS Innovation Hub: using CBDCs across borders

On 21 June 2022, the BIS Innovation Hub published its report on using CBDCs across borders: lessons from practical experiments. At present, three cross-border CBDC projects with central banks and private sector partners around the world have been completed (Inthanon-LionRock2 (ILR2), Jura and Dunbar), another is in progress (mBridge) and more are planned. The report outlines the similarities and differences of these four projects with a view to setting out the insights and lessons learnt. Collectively, the projects show that platforms with two or more CBDCs are technically feasible and offer a range of benefits that can lead to faster, cheaper and more transparent payments across borders. While this is desirable, questions remain unanswered related to policy considerations, legal and regulatory frameworks, and basic operational economics that might call into question the viability of multi-CBDC platforms.

BIS: Annual Economic Report chapter on the monetary system of the future

On 21 June 2022, the BIS pre-released a special chapter from its full Annual Economic Report, outlining the monetary system of the future, combining digital features with trust in central banks. A burst of creative innovation is under way in money and payments, opening up vistas of a future digital monetary system that adapts continuously to serve the public interest. Structural flaws make the crypto universe unsuitable as the basis for a monetary system: it lacks a stable nominal anchor, while limits to its scalability result in fragmentation. Contrary to the decentralisation narrative, crypto often relies on unregulated intermediaries that pose financial risks. A system grounded in central bank money offers a sounder basis for innovation, ensuring that services are stable and interoperable, domestically and across borders. Such a system can sustain a virtuous circle of trust and adaptability through network effects. New capabilities such as programmability, composability and tokenisation are not the preserve of crypto, but can instead be built on top of central bank digital currencies (CBDCs), fast payment systems and associated data architectures.

BIS Innovation Hub: new projects announced

On 17 June 2022, BIS Innovation Hub announced new projects across its various centres, including the first three Eurosystem Centre projects on cryptocurrency, quantum cryptography, and climate-related disclosure. The Hong Kong centre will also explore the tracking, delivery and transfer of de facto carbon credits attached to a bond. The Eurosystem Centre is expected to open in the coming months, with locations in Frankfurt and Paris and working together with all 19 euro area central banks and the European Central Bank. The Innovation Hub will also expand its portfolio in the areas of green finance and supervisory and regulatory technology (RegTech and SupTech).

OECD: recommendation on Blockchain and other distributed ledger technologies

On 10 June 2022, the OECD published its Recommendation of the Council on Blockchain and Other Distributed Ledger Technologies. The recommendation provides guidance for actors in the Blockchain ecosystem, including but not limited to governments, industry, academia, and civil society. With the increase in use and rapid development of the technology and its applications, the recommendation seeks to provide a clear and coherent policy framework for responsible Blockchain innovation and adoption to prevent and mitigate risks, while preserving incentives to innovate, collaborate and compete. While international policy standards have thus far focussed on financial market issues, the recommendation recognises the wider impacts of and uses for the technology and is the first cross-sectoral international policy standard for blockchain.

BIS: report on Blockchain scalability and fragmentation of crypto

On 7 June 2022, BIS published its report on Blockchain scalability and the fragmentation of crypto. Building on permissionless blockchains, crypto and DeFi seek to create a radically different monetary system, but they suffer from inherent limitations. A system sustained by rewarding a set of decentralised but self-interested validators through fees means that network effects cannot unfold. Instead, the system is prone to fragmentation and costly to use. Fragmentation means that crypto cannot fulfil the social role of money. Ultimately, money is a coordination device that facilitates economic exchange. It can only do so if there are network effects: as more users use one type of money, it becomes more attractive for others to use it. Looking to the future, there is more promise in innovations that build on trust in sovereign currencies.

IMF: report on digital currencies and energy consumption

On 7 June 2022, the IMF published its report on Digital Currencies and Energy Consumption. Whether in crypto assets or in CBDCs, design choices can make an important difference to the energy consumption of digital currencies. The paper establishes the main components and technological options that determine the energy profile of digital currencies. It draws on academic and industry estimates to compare digital currencies to each other and to existing payment systems and derives implications for the design of environmentally friendly CBDCs. For distributed ledger technologies, the key factors affecting energy consumption are the ability to control participation and the consensus algorithm. While crypto assets like Bitcoin are wasteful in terms of resources, other designs could be more energy efficient than existing payment systems.

EU: DLT Pilot Regime published in EU Official Journal

On 2 June 2022, Regulation (EU) 2022/858 on a pilot regime for market infrastructures based on distributed ledger technology (DLT Pilot Regime) was published in the *Official Journal of the European Union*. The DLT Pilot Regime introduces categories of DLT Market infrastructures (DLT Multilateral Trading Facilities, DLT Trading and Settlement Systems, and DLT Settlement Systems) that may request exceptions to certain MiFID II/MiFIR/CSDR requirements and will apply from 23 March 2023 for a period of three years. By March 2026, ESMA will report on the functioning, benefits, and costs, among other items, to the European Commission. The Commission will then present a report to the European Parliament and Council recommending whether the DLT Pilot Regime should be extended for a further period of three years, extended to other financial instruments, amended, made permanent, or terminated.

BIS CPMI: paper on DLT-based enhancement of cross-border payment efficiency

On 20 May 2022, the BIS CPMI published its paper on DLT-based enhancement of cross-border payment efficiency – a legal and regulatory perspective. The paper finds that financial law traditionally assumes that functions are concentrated in a single entity. Hence, the distribution of functions in DLT comes with the need for additional agreements, ongoing coordination across, and governance arrangements among each participant. Further, in a cross-border context, multiple regulators and courts of various countries will be involved. All of these must decide whether for compliance with the law and regulations they look at DLT as a whole ("ledger perspective") or each individual DLT participant ("node perspective").

OECD: report on institutionalization of crypto-assets

On 19 May 2022, OECD published its report on Institutionalisation of crypto-assets and DeFi–TradFi interconnectedness. The report examines institutional investor participation in markets for digital assets, including crypto-assets and decentralised finance (DeFi) such as bond tokenisation. It considers and tests potential drivers of growing supply and demand for such assets by institutional investors, analyses the potential for increasing interconnectedness between traditional finance (TradFi) and decentralised finance and identifies linkages between the two. The report then outlines the risks these growing markets may create, while also examining the potential benefits of the decentralisation of financial services, before putting forward policy recommendations.

ESMA: paper on financial stability risks from cloud outsourcing

On 12 May 2022, ESMA published its working paper on financial stability risks from cloud outsourcing. The use of cloud computing services by financial institutions has expanded over the last few years, as firms are increasingly outsourcing parts of their IT infrastructure (FSB, 2019). While migrating to the cloud provides a range of benefits to firms including scalability and flexibility, the high concentration of the Cloud Service Provider (CSPs) market can present risks to financial stability, especially from an operational risk perspective (Danielsson and Macrae, 2019). The paper analyses the impact of migrating to the cloud on the stability of the financial system. It shows the importance of trade-offs between higher individual resilience for firms using CSPs and higher risk of tail events, where multiple firms suffer an outage at the same time.

BIS: working paper on 2021 CBDC survey results

On 6 May 2022, the BIS published its working paper covering the results of its 2021 survey on CBDCs. Most central banks are exploring CBDCs, and more than a quarter of them are now developing or running concrete pilots. The paper updates earlier surveys that asked central banks about their engagement in this area. The latest responses from 81 central banks show that the COVID-19 pandemic and the emergence of cryptocurrencies have accelerated the work on CBDCs. In addition, the paper shows that more than two thirds of central banks are likely to issue a retail CBDC in the short or medium term. Many are exploring a CBDC ecosystem that involves private sector collaboration and interoperability with existing payment systems.

BIS Innovation Hub, Bank Indonesia: third G20 TechSprint on CBDC

On 25 April 2022, the BIS Innovation Hub and Bank Indonesia launched the third G20 TechSprint, focusing on developing new solutions for central bank digital currencies (CBDCs). The G20 TechSprint Initiative 2022 is an international competition to explore innovation and develop cutting-edge sustainable technological solutions. It is open to participants from around the world. This year's "hackathon" invites global innovators to develop new solutions for issuing and distributing CBDCs; use them to advance financial inclusion and improve interoperability between payments systems following successful initiatives on regulatory and supervision compliance and green finance solutions in previous years.

European Commission: launch of EU Digital Finance Platform

On 8 April 2022, the European Commission launched the EU Digital Finance Platform, following announcement of the initiative within the September 2020 Digital Finance Package. The platform is a new website designed to build dialogue between innovative financial firms and supervisors. It will initially consist of two main building blocks: an Observatory offering interactive features such as a Fintech Map, events and a section where users will be able to share relevant research material, and a Gateway which will act as a single access point to supervisors, with information about national innovation hubs, regulatory sandboxes and licensing requirements. A second phase with additional features is intended to be launched 2023.

BIS: CBDCs in emerging market economies

On 14 April 2022, the BIS published a collection of papers on CBDCs in emerging market economies. In recent years, in both advanced (AEs) and emerging market economies (EMEs), central banks have become increasingly engaged in projects related to central bank digital currencies (CBDCs) – ie digital money that is denominated in the national unit of account and is a liability of the central bank (BIS (2021)). However, the stage of engagement – research, pilot or launch – varies according to the country. While a handful of central banks are still uncertain about the need for CBDC, issuance in the near term, others are of the view that careful design can keep risks to a minimum (and ensure "no harm" to the financial system, as discussed in Group of Central Banks (2020)) while still yield net benefits.

@ **Contact: Rowan Varrall**
rowan.varrall@icmagroup.org

ICMA FinTech Newsletter

FinTech Newsletters in the last quarter noted updates to ICMA's FinTech regulatory roadmap, highlighting relevant developments over the coming years, and recent DLT guidance, legislative initiatives, and publication updates covered by the DLT regulatory directory. In April, HM Treasury announced a partnership with the FCA and Bank of England to launch a Financial Market Infrastructure (FMI) Sandbox in 2023 to support the testing of new technology, such as DLT, for trading and settlement. In June, the EU DLT Pilot Regime (Regulation (EU) 2022/858) for market infrastructures based on DLT was published in the EU's *Official Journal*.

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@ **Contact: Rowan Varrall**
rowan.varrall@icmagroup.org

Transition from LIBOR in the bond market


by **Katie Kelly and Charlotte Bellamy**

Transition from LIBOR in the bond market

The transition from LIBOR to risk-free rates (RFRs) has been under way for some time now, and ICMA has been closely involved from an early stage. In particular, ICMA chairs a Bond Market Sub-Group, which is a substantive sub-group of the overall Sterling Risk-Free Rate Working Group (RFRWG), charged with addressing LIBOR transition in the bond markets, including securitisations.

Alternative RFRs

In considering the transition from LIBOR, it is important to understand the evolution and operation of the new RFRs. Globally, the authorities have recommended RFRs as alternatives to LIBOR, and their uptake has been very healthy in the sterling (SONIA) and US dollar (SOFR) FRN markets. As the new RFRs are based on actual overnight rates, they are applied retrospectively to the notional amount at the end of an interest period, and are compounded, which is a fundamental shift in approach to LIBOR, which was determined at the start of an interest period.

Term RFRs, which mirror LIBOR in that they are known at the start of the interest period, are available for certain LIBOR currencies, but the Financial Stability Board noted the importance of using overnight RFRs where possible in 2018[1] and official sector-sponsored working groups, including the RFRWG, have subsequently recommended that usage of term RFRs be limited.[2] The RFRWG's Term Rate Use Case Task Force has however provided guidance[3] on where the usage of a term rate may be necessary.[4] This includes, for instance, Islamic finance, where for Shariah law-compliance, a variable rate of return can be paid, so long as the variable element is pre-determined.

RFR conventions

This change in approach to computing interest amounts has necessitated different market conventions which, in the SONIA market, are well enshrined but, in the SOFR market, are more changeable. In the SONIA market, the SONIA rate applied to the notional amount is taken typically five business days before the end of an interest period, which allows enough time for the payment flows to operate smoothly. This convention is also used in the SOFR market, but other conventions also feature, such as locking-in the rate a certain number of days before the end of an interest period and applying that rate for the rest of the period.

There are also different approaches to weighting for days when the relevant rate is not published, such as weighting the rate according to the number of days that apply in the interest period or according to the number of days that apply in the observation period. SONIA and SOFR indices are also published to support the rates, but thus far, their use has been sporadic.

Anecdotally, the fact that there are different conventions as between the RFRs does not appear to be problematic for the market, with most investors capable of accommodating the variations. But it is important that the conventions are captured correctly by data sources so that they can be easily identified and understood by investors.

LIBOR transition timings

Moving on, a key milestone was achieved on 31 December 2021, when the Financial Conduct Authority in the UK (FCA) announced that most LIBOR settings (including all euro and Swiss franc settings) ceased to be published, and 1, 3 and

1. *Interest Rate Benchmark Reform – Overnight Risk-Free Rates and Term Rates,* FSB, July 2018.

2. *Term SONIA Reference Rate Publication Summary*, RFRWG, updated July 2021.

3. *Use Cases of Benchmark Rates: Compounded in Arrears, Term Rate, and Further Alternatives,* RFRWG, January 2020..

4. See also *ARRC Best Practice Recommendations Related to Scope of Use of the Term Rate*, updated August 2021.

6-month sterling and yen LIBOR transitioned to a "synthetic" methodology which, as outlined below, is to help support an orderly wind-down of LIBOR. This stage of the LIBOR transition passed off smoothly, in no small part due to market preparedness and clear pathways and messaging from the authorities.

The transition from US dollar LIBOR is running to a different timetable, and panel bank US dollar LIBOR will only permanently cease to be published on 30 June 2023, although restrictions were placed upon its use as of 31 December 2021[5]. So, US dollar LIBOR should not be used in any new transactions, and all firms have been encouraged since last year to plan for its end. As the Chair of the Alternative Reference Rates Committee (ARRC, which is the official working group charged with US dollar LIBOR transition) puts it: "you wouldn't wait until the moving van arrives to pack up the china; you would carefully package and label everything beforehand[6]".

Legacy LIBOR bonds

The question of how to transition legacy LIBOR bonds (and indeed other contracts that reference LIBOR) away from LIBOR has been, and continues to be, a key question for financial markets.

In the bond market, LIBOR or LIBOR-based rates have been used in a wide range of instruments, some of which have a very long maturity or indeed no maturity (like perpetual instruments). Historically, before market participants knew about LIBOR cessation, those contracts would not have been drafted with that scenario in mind. This means that the provisions catering for the reference rate being unavailable (known as fallback provisions) typically cater for a temporary cessation of the reference rate but do not cater for a permanent cessation. In many cases, they will operate such that the most recently used rate is applied for the remainder of the term of the bond. In other words, a floating rate instrument becomes a fixed rate instrument upon the permanent cessation of LIBOR.

This outcome is not considered to be palatable because it is different from what the parties originally agreed when they issued or bought the security. Bond market participants can take steps to avoid this outcome. This is known as "active transition". As outlined below, active transition is not straightforward in all cases. In addition, there are various other asset classes, such as loans and mortgages, in which legacy LIBOR contracts and instruments face similar or other issues. For these reasons, legislators and authorities in the US, UK and EU have put in place legislation to help support an orderly wind-down of LIBOR.

The introduction of legislation in the US, UK and EU is an interesting illustration of official sector support for an orderly wind-down of LIBOR on a global basis, and an acknowledgement of the significance of this task. Broadly speaking there are two different legislative approaches: a "contract override" approach (introduced by US and EU legislators) and the "synthetic LIBOR" approach (introduced by UK legislators).

The contract override approach in federal US law will apply to certain contracts referencing US dollar LIBOR that are governed by a law of the US, such as New York law. Many international bonds are governed by New York law, and so this legislative solution is important for the bond market. The Federal Reserve Bank of New York has responsibility for specifying a SOFR-based rate that will be the automatic replacement for US dollar LIBOR references in in-scope contracts when US dollar LIBOR ceases. It is anticipated that some types of bonds will be in-scope. The legislation also specifies a credit adjustment spread that will apply. This is intended to reflect the difference between LIBOR (which embeds a bank credit element) and a SOFR-based rate (which is a "risk-free" rate). The aim of the legislation is to establish a clear and uniform process for replacing LIBOR in existing contracts where the terms do not provide for the use of a clearly defined or practicable replacement benchmark.

A similar approach has been taken in the EU Benchmarks Regulation, where the European Commission has discretion to select a replacement rate and credit adjustment spread for certain contracts that are: (a) governed by EU law; or (b) governed by a third country law that does not provide for the orderly wind-down of a benchmark and where all the parties are established in the EU.

The synthetic LIBOR approach is different. Synthetic LIBOR involves the FCA (which is the supervisor of IBA, the LIBOR administrator) directing IBA to change the methodology for how it calculates LIBOR. The FCA has already exercised its powers to compel IBA to continue to publish the most commonly-used sterling and yen settings on the basis of a different methodology. As of the start of 2022, those sterling and yen LIBOR settings are no longer being calculated based on panel-bank submissions and are based instead on a risk-free rate and a credit adjustment spread (so-called synthetic LIBOR). The application of the synthetic LIBOR rate to legacy LIBOR contracts is supported in UK law via the Critical Benchmarks (References and Administrators' Liability) Act 2021, which the UK Government introduced in order to provide certainty that contractual references to LIBOR should continue to be treated as references to

5. See also statement of the Board of Governors of the Federal Reserve System (Reserve Board), the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, November 2020; the Reserve Board's related examination guidance, March 2021; IOSCO's statement, June 2021; and CFTC statement, July 2021.

6. See press release, ARRC, October 2021

LIBOR where the FCA has directed a change in how LIBOR is calculated, ie to introduce synthetic LIBOR.

The FCA has not yet decided whether to exercise these powers in relation to US dollar LIBOR.

Legacy US dollar LIBOR bonds after end June 2023

The outcome for US dollar LIBOR bonds after the end of June 2023 (when panel bank US dollar LIBOR is due to cease) will depend on a number of factors including the governing law of the bond and whether it is subject to the US or EU contract override legislation, as well as the fallback provisions contained in the bond's terms and conditions.

Broadly speaking, it is anticipated that bonds that have been issued recently and that contain fallbacks designed to cater for permanent cessation of LIBOR (in particular where the fallbacks are triggered by LIBOR being unrepresentative) are likely to operate in accordance with their terms resulting in the bond transitioning to a SOFR-based rate. However, if the FCA chooses to exercise its powers to compel IBA to publish synthetic US dollar LIBOR, this could mean that certain types of updated fallback provisions (primarily those *without* triggers based on LIBOR's representativeness) contained in bonds that are *not* subject to the US or EU legislation might *not* be triggered, meaning those bonds would reference synthetic US dollar LIBOR.

The situation is likely to be different for those bonds with older fallbacks that are not designed to deal with LIBOR cessation:

- If those bonds are governed by a law of the US, such as New York law, they may be subject to the US legislation and therefore automatically transition to a SOFR-based rate for the remainder of their term.
- If the bonds are governed by another law, such as English law, and if the FCA exercises its powers to compel IBA to publish synthetic US dollar LIBOR, then those bonds may reference synthetic LIBOR after June 2023.
- It is also possible that the EU legislative override might be relevant, for example if the bonds are governed by a law of the EU and the European Commission decides to exercise its powers under the EU Benchmarks Regulation to specify a successor rate for US dollar LIBOR.

It is possible that any synthetic US dollar LIBOR, the US legislative override and the EU legislative override might all use the same SOFR-based rate and credit adjustment spread. This would mean that, at least to start with, there would be the same commercial outcome for legacy US dollar LIBOR bonds that are subject to these legislative solutions, albeit achieved via different mechanisms.

There is a fundamental difference, though, between the synthetic LIBOR route and the legislative override route, which is that synthetic LIBOR is not guaranteed to be published for the remainder of the term of the instrument. In fact, the FCA must review whether or not to continue to compel IBA to continue to publish synthetic LIBOR on an annual basis up to a maximum of 10 years. For sterling and yen LIBOR, the FCA has been clear that synthetic LIBOR is not a permanent solution and will be wound down. Synthetic yen LIBOR settings will cease at the end of 2022. For synthetic sterling LIBOR, the FCA is currently consulting on retiring the 1-month and 6-month settings at the end of March 2023, and on when to retire 3-month sterling synthetic LIBOR, via a public consultation. This consultation also seeks information on US dollar LIBOR in advance of the FCA needing to assess whether it should require continued publication of US dollar LIBOR on a synthetic basis when the US dollar LIBOR panel ends on 30 June 2023.

Taken together, the question of what will happen to legacy US dollar LIBOR bonds after the end of June 2023 is a complicated picture with some elements that have not yet been confirmed. What is certain is that market participants will need to be looking very carefully at their US dollar LIBOR exposure with a view to managing it down and understanding how the different legislative-based approaches will impact them from the end of June 2023.

Actively transitioning away from LIBOR

The importance of managing down LIBOR exposures by actively transitioning them cannot be overstated. The FCA has been clear that synthetic sterling LIBOR is not a permanent solution and will be wound down. This means active transition remains an important part of a sterling LIBOR transition strategy, in particular for longer dated/perpetual transactions. It is our understanding that there is quite a significant number of US dollar LIBOR bonds governed by English law, and as explained, the pathway to a solution is not confirmed. So there is no doubt that the best way to retain control and achieve certainty of outcome in US dollar LIBOR transition is to undertake a consent solicitation exercise to switch from US dollar LIBOR to SOFR.

But doing so may not be straightforward, because it requires changing the interest rate provisions of bonds – a process known as consent solicitation, whereby an issuer seeks agreement with noteholders to change the contractual terms of the bond. The consent solicitation process takes time and can be costly, and there is no guarantee of success. Under English law, typically 75% of the required quorum can agree the changes, which will then be binding on all noteholders, but that threshold can be difficult to achieve. However, these challenges are not insurmountable, and consent solicitation has been used successfully to transition a large number of sterling LIBOR legacy transactions already. In the UK, the FCA has stated that it will continue to monitor UK regulated entities' progress in relation to US dollar LIBOR transition.

Conclusion

It has been clear for some time that market participants need to pay close attention to LIBOR cessation and actively manage the risks arising from it. This is ever more the case following the end of June 2022, as there is now less than one year left for the remaining US dollar LIBOR settings in panel bank format. Although US dollar LIBOR represents a unique and new challenge in terms of the scale and truly global nature of the transition effort that is required, there is a wealth of knowledge and experience that has been gained in the sterling and yen LIBOR transitions that can be drawn upon.

ICMA staff will continue to engage with market participants and the relevant authorities on these issues and remain available to discuss with ICMA members.

Contacts: Katie Kelly and Charlotte Bellamy
katie.kelly@icmagroup.org
charlotte.bellamy@icmagroup.org

Capital market regulatory developments in China A



by **Mushtaq Kapasi, Ricco Zhang and Yanqing Jia**

Connection of the interbank and exchange bond markets for international investors

In May 2022, PBOC, CSRC and SAFE made an announcement to further facilitate overseas institutional investors' access to China's bond markets. Effective from 30 June 2022, international institutional investors that already have access to the interbank bond market (CIBM) may participate in the exchange-traded bond market. Investors can either use their existing CIBM account to trade through the Infrastructural Connection Mechanism between the interbank and exchange markets or directly participate in the exchange bond market by applying for an Investor ID with CSDC. On 29 June 2022, CSDC jointly with Shanghai Stock Exchange and Shenzhen Stock Exchange also published the implementation rules for the direct access scheme for international investors to access the exchange-traded market.

Transition bonds piloted by NAFMII and SSE

NAFMII published a notice about piloting Transition Bonds in China's interbank bond market on 6 June 2022. Issuers from eight traditional industries may issue transition bonds and should use 100% of the proceeds to finance projects that contribute to energy efficiency or reduce pollution and/or carbon emissions but do not meet the technical criteria of the China's Green Bond Catalogue. Clean coal and natural gas are among the transition project categories. Issuers should also disclose their transition plan in their main business activities.

Separately, Shanghai Stock Exchange also introduced low-carbon transition bonds for the exchange-traded bond market. Issuers of this type of bond are required to either use 70% of the proceeds for low-carbon transition activities or have sustainability-linked features with low carbon transition SPTs.

Futures and Derivatives Law

On 20 April 2022, China passed the Futures and Derivatives Law. It recognises close-out netting under master transaction agreements for derivatives for the first time at the legislative level and lays a foundation for regulating cross-border derivative transactions.

Master agreement for bond lending in the interbank market

Subsequent to the publication of the PBOC rules for bond lending in February 2022, NAFMII published the Master Agreement for Bond Lending and Borrowing Transactions in the Interbank Market (2022 Version).

CBIRC green finance guidelines extended to cover insurance companies

CBIRC published its Green Finance Guidelines for the Banking and Insurance Industries in June 2022.

The guidelines aim to encourage financial institutions (FIs) to provide funding to green and low-carbon efforts in the economy, improve their ESG risk management and FIs' own ESG performance. The guidance stipulates high-level requirements for both banks and insurance companies on management responsibility, credit and investment policies and procedures, internal control, and information disclosure.

Launch of ETF Connect

CSRC and SFC approved on 28 June 2022 the inclusion of ETFs as eligible securities under the Stock Connect scheme. Effective from 4 July 2022, mainland China and Hong Kong investors may trade eligible ETFs listed on each other's exchanges.

@ **Contact: Yanqing Jia**
yanqing.jia@icmagroup.org

Green, Social, Sustainability and Sustainability-Linked Bonds in China: current practice and prospects

A S

by **Ren Qing, NAFMII**

The concept of green and sustainable development has been generally acknowledged in China in recent years, and the debt capital market is playing an important role in guiding financial resources to low-carbon and transition sectors. Under these circumstances, Green, Social, Sustainability and Sustainability-Linked bonds (GSSS bonds) are developing rapidly and steadily.

GSSS bonds are among the most important financial instruments to help achieve China's "dual carbon goals" (peaking carbon emission by 2030 and achieving carbon neutrality by 2060).

On the one hand, China has the arduous task of peaking carbon emissions and achieving carbon neutrality in a relatively short period. Unlike developed countries that hit peak carbon emissions as early as the 1990s or 2000s, China's degree of industrialisation has not reached its peak yet. On the other hand, limited by the resource endowment of rich coal, poor oil and rare gas, China needs to make greater efforts to promote the transition of its energy structure to build a clean, low-carbon, safe and efficient energy system.

The realisation of the dual carbon goals requires a large amount of capital. GSSS bonds with proceeds used to finance or refinance green and social projects or activities, or structurally linked to the issuer's achievement of sustainability performance targets to the coupon through a covenant, could make up for the capital gap.

With support of ICMA and other international organisations, NAFMII has been actively promoting the adoption of international best market practices in the domestic markets, paving the way for swift growth in China's GSSS bond markets.

Green Bonds

China with an aggregate issuance volume of about USD 56.4 billion in 2021 ranked second in global green bond issuance. The domestic green bonds standards have been continuously improved, on a path to increased consistency with global standards. *The Green Bond Endorsed Projects Catalogue (2021 Edition)* defines the scope of eligible projects for green bonds in China. *The Operating Rules for Market Assessment of Green Bond Evaluation and Verification Agencies (Trial)* could promote the healthy development of the third-party evaluation and verification entities. Efforts to unify the different green bond regulations in China into a single China green bond standard are ongoing and led by NAFMII.

In terms of incentives, the People's Bank of China has included green bonds within the scope of qualified collateral for the central bank's lending facility and will also introduce more measures in areas such as commercial bank credit assessment, deposit insurance premiums, and macro-prudential assessment, to promote sustainable finance. NAFMII also encourages more institutions to participate in the green bond market by regularly publishing a list of green bond investors ranked by their investment size in Chinese domestic green bonds. Innovative products such as carbon neutrality bonds and green panda bonds have further enriched the spectrum.

Social and Sustainability Bonds

To support both environmental and social goals, in November 2021, NAFMII launched the pilot program to issue social and sustainability bonds in China and released the *Q&As on Pilot Program of Social Bonds and Sustainability Bonds*, based on ICMA's *Social Bond Principles and Sustainability Bond Guidelines*. Modelled on international standards and Sustainable Development Goals (SDGs), the pilot program adopted the internationally accepted "four pillars" of the Principles,[1] and also recommended that social and sustainability bonds use the "bond framework". International development agencies have launched sustainable bonds with the framework, enriching the practice of sustainable financing in the interbank market.

Sustainability-Linked Bonds & Transition Bonds

To support the transition of the high carbon sector such as the energy industry in China, NAFMII launched guidelines for sustainability-linked bonds (SLBs) in April 2021, consistent with ICMA's *Sustainability-Linked Bond Principles*. SLBs link bonds' economic terms with the issuer's sustainability performance targets. By regular verification by a third-party and variable coupon rate, SLBs provide an effective market restraint mechanism.

Separately, NAFMII borrowed the concept of use-of-proceeds bonds and launched a pilot program of transition bonds, to provide more financing tools to key carbon emission reduction industries.

ESG investment looms in China, which will promote and complement the development of GSSS bonds

Since the principles and standards of GSSS bonds generally match Environmental, Social and Governance (ESG) evaluation indicators, they have become a key component of ESG investment. Meanwhile, ESG investors can also provide a steady stream of medium-to long-term funds for the GSSS market. The two complement each other and indicate broad development prospects.

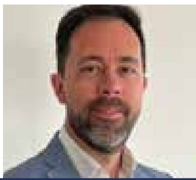
Taking ESG wealth management products as an example, according to market statistics, China's investment of wealth management funds in green bonds exceeds RMB 220 billion (USD 33 billion) in 2021. The outstanding volume of pure ESG wealth management products in China reached RMB 96.2 billion (USD 14 billion) as of the end of 2021, almost double the previous year.

China's interbank market will continue to play an important role in supporting the sustainable development of prospects

China's interbank bond market (CIBM) is an over-the-counter wholesale market for institutional investors. In recent years, the CIBM has promoted convergence of onshore market mechanisms with international practices and has sought to provide a level playing field to foreign participants. As a self-regulatory organisation in the CIBM, NAFMII will continue to play a guiding and facilitating role of marketisation and internationalisation, to further promote low-carbon transition and sustainable development in China, while also providing opportunities for foreign participants to support the global net zero goal through China's capital markets.

1. So it reads: The Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG) and Sustainability-Linked Bond Principles (SLBP) are collectively known as the "Principles".

Tradeclear©: Unprecedented times, unprecedented solution



by **Philip Buyskes, CEO Frontclear**

The First Tradeclear©

On 15 June 2022, the Deputy Governor of the Bank of Uganda (BOU) officially launched Tradeclear® in Kampala, Uganda. Uganda is the first country to put in place this Frontclear designed and structured practical framework to develop a more stable and inclusive interbank market among local banks. Tradeclear® deepens the interbank market by mitigating credit risk on interbank transactions, introducing best practice GMRA and ISDA documentation, reforming the legal and regulatory framework, and building knowledge and capacity among market participants.

"In Uganda, the legal and regulatory review on the enforceability of the GMRA and ISDA is in the final stages. It should be completed soon, and a number of banks are now ready to sign up to the Umbrella Guarantee Facility, also known as Tradeclear. Today marks the beginning of a formal relationship that we believe should contribute to further transformation of the financial markets landscape in Uganda."

Michael Atingi-Ego
Deputy Governor of the Bank of Uganda

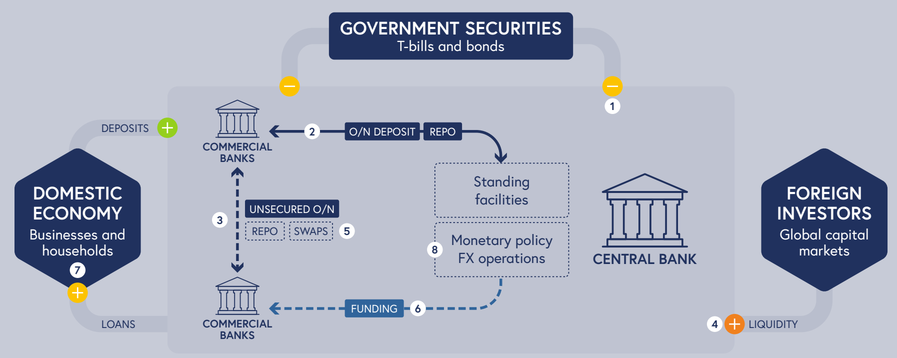
Unprecedented times

The COVID-19 pandemic and resulting economic crisis pushed governments worldwide to increase public debt to unprecedented levels. While this ensured that deeper negative economic consequences were staved off, many developing countries are now left in a precarious position. The fiscal positions of Emerging Market and Development Countries (EMDC) governments have deteriorated after providing extensive support for two years. The increased local liquidity has masked real risk levels and inadequately reflected lower credit spreads for countries and counterparties. Banks in EMDC markets have shown caution in terms of extending new loans to the private sector. Rather, financial institutions have shored up their portfolios in government securities, helping local governments deal with higher deficits (from fiscal support initiatives) and lower collected revenues (from reduced economic activity). The impact of the pandemic on banks' asset quality will only be known once loan restructuring and debt service grace periods end, when clients are expected to fully perform on their obligations again.

As the pandemic's impact on different sectors abates and the reduction in economic activity is reversing quickly, the massive liquidity and cost-push impacts of substantial reallocations of labour during COVID-19 is leading to higher inflation. Frontier market central banks must be confident in their monetary policy toolbox when targeting this surge in inflation. Yet most face stubbornly inefficient transmission mechanisms. The existence of perceived and real counterparty credit risk segments in the market all but halts interbank activity and the flow of liquidity among banks. In addition, the absence of a legal and regulatory regime that supports close out netting is a constraint to market development, as it exposes the market participants to undue credit and liquidity risks in repurchase agreements (repos) and derivative transactions.

Market segmentation in frontier markets

Under normal market conditions, let alone in a crisis, (perceived) counterparty credit risk quickly dislocates banking relationships. Without access to the interbank system and in particular, repo, banks hoard liquidity as a primary risk mitigator. Larger banks experience lower borrowing costs and often only trade with one another. Smaller players, who often play an outsized role in serving SMEs, are locked-out or have high borrowing costs despite overall liquidity in the market. The financial system's overall financial soundness and role to effectively extend loans and financial products to the real economy suffers.



TAKEAWAYS

- 1 Benchmark government securities are not always in place or available.
- 2 Punitively priced vertical repo.
- 3 Largely overnight O/N unsecured markets characterised by wide spreads reflecting high and diverse perceptions of counterparty credit risk.
- 3 5 Limited/no horizontal repo (fragmented interbank).
- 4 6 Limited bank access to liquidity.
- 3 5 7 Shallow swap markets; banking system unable to hedge risks, attract investment and serve clients - stockpiling reserves.
- 8 Monetary policy does not transmit through the system.

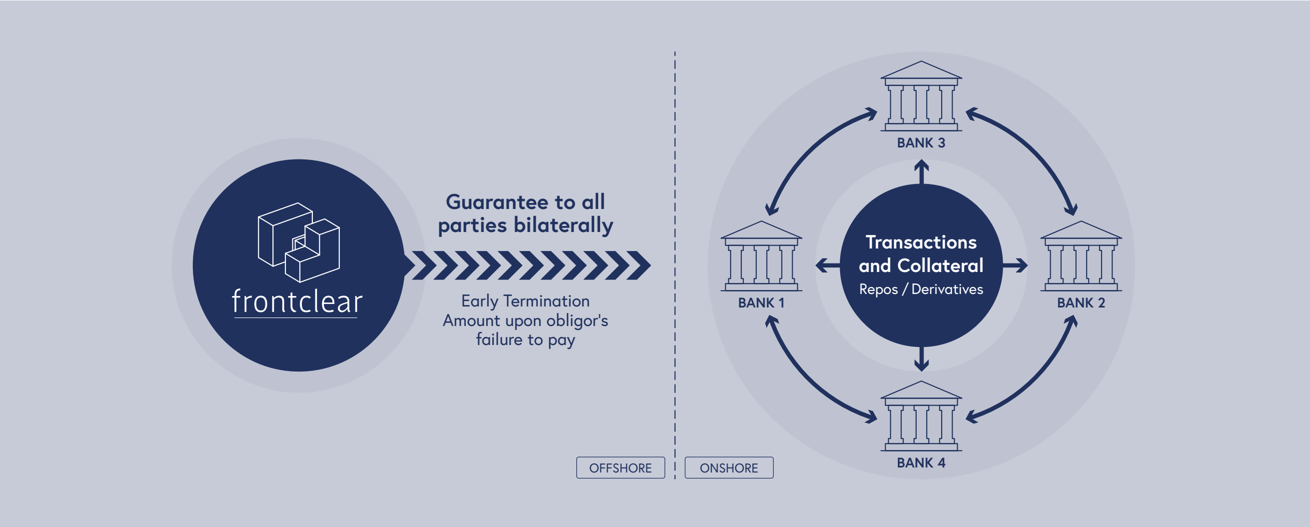
Unprecedented solution

Banks rely on interbank markets to deal with immediate liquidity concerns and to transmit changes in monetary policy. Interbank lending is where banks borrow and lend to each other using financial instruments such as repos and hedge balance sheet risks through derivatives. Central banks rely on the same interbank market to transmit their monetary policy signals. The segmentation of the interbank market due to counterparty credit risk concerns impairs both of these mechanisms. Tradeclear©, an Umbrella Guarantee Facility (UGF), whereby Frontclear guarantees the counterparty credit risk of all participants, is a systemic approach that allows for an inclusive and liquid interbank market, solving the market segmentation and improving monetary policy transmission.

Tradeclear© – Umbrella Guarantee Facility

In Tradeclear© all interbank transactions among eligible banks in a country are guaranteed. This mitigates counterparty credit risk and allows liquidity to flow among tiers in the system, while simultaneously building-up operational experience with best-practice documentation (GMRA and ISDA) and transaction knowledge (eg margining, collateral management). Tradeclear© is a pre-CCP market infrastructure solution and a secure approach to a more inclusive interbank market.

In a Tradeclear©, Frontclear guarantees the payment of early termination and unwind values upon default of a participating bank, mitigating counterparty credit risk and settlement risk. Key expected benefits for the market include increased trading lines for each participating bank and thus reduced interbank segmentation between the different bank tiers. This should lead to improved pricing, reduced reliance on central bank facilities, improved market resilience to shocks, improved secondary bond market liquidity, development of an interest rate benchmark and yield curve and improved monetary policy transmission. Participating banks receive ongoing capacity building support through the Frontclear Academy and gain access to the Tradeclear© guarantee platform, which provides valuation and collateral management capabilities to banks who have not yet developed these systems internally.



UNECA / Frontclear Partnership

The United Nations Economic Commission for Africa (UNECA) and Stichting FTAP (Frontclear Technical Assistance Programme, a Foundation) have formed a partnership to support African countries to address the adverse effects of the pandemic on national debt and financial markets. The direct purpose is to strengthen their local financial institutions, financial system and investor base (both domestic and international), which will not only help governments mobilise more funding for economic recovery and building back better, but also help build financial resilience towards future shocks. One of the activities supported by the partnership is the *Tradeclear® Feasibility Study*. Central Bank's from African markets, such as the Bank of Zambia, have signed the request to work with the local market and the partnership, to develop a Tradeclear® structure customised to their market idiosyncratic features. The Zambia effort was kicked-off in a Lusaka workshop in late May 2022. The Study will consider local demand dynamics, legal & regulatory framework, clearing and settlement system and market knowledge, with a proposed model by the close of 2022.

An invitation

Deep and efficient domestic government debt markets help provide resilience to shocks in times of financial turbulence and convey multiple economic benefits. These markets mitigate currency pressures and are central to broader capital market development, facilitating appropriate pricing of risk and allowing participants in financial markets to better manage their portfolios. In turn, these factors help boost a country's long-term economic growth potential and ability to weather external shocks.

A participatory and liquid interbank market is key to developing local currency government debt markets. Frontclear, through programmes like Tradeclear®, continually strives to support local governments and banking sector counterparties to develop their interbank and money market. The International Capital Market Association (ICMA) is a long-standing partner in this effort, combining with Frontclear to review and reform legal and regulatory frameworks in frontier markets. We welcome all ICMA members to join in these efforts to the benefit of global market stability and resilient financial markets (Sustainable Development Goals 8 and 17).

About Frontclear

Frontclear is an Amsterdam based development finance institution. Frontclear is funded by European development finance institutions, including the European Bank for Reconstruction and Development (EBRD), the Dutch development bank FMO, the Financial Sector Deepening Africa (FSDA), the French development bank Proparco, The Currency Exchange Fund (TCX), the UK's Foreign, Commonwealth and Development Office (FCDO) and the German Ministry of Development Cooperation (BMZ). Frontclear's guarantees are counter-guaranteed by KfW, an AAA-rated German development bank. Frontclear's development mandate is focused on catalysing more stable and inclusive financial markets in emerging and frontier markets through the provision of financial guarantees to cover counterparty credit risk. Frontclear also offers technical assistance to develop the financial infrastructure, legal environment as well as the skills and capacity of the local market participants.

ICMA Capital Market Research

ICMA Strategy Paper: GMRA Clause Taxonomy & Library Project
Published: 25 May 2022
Authors: Lisa Cleary, ICMA, assisted by D2 Legal Technology (D2L)

ICMA Guide to Asia Repo Markets
Published: 3 May 2022 (latest chapter covering Vietnam)
Author: Richard Comotto

The Asian International Bond Markets: Development and Trends (Second edition)
Published: 24 March 2022
Authors: Andy Hill, Mushtaq Kapasi, and Yanqing Jia, ICMA, with support from the Hong Kong Monetary Authority

Ensuring the Usability of the EU Taxonomy
Published: 14 February 2022
Authors: Nicholas Pfaff and Ozgur Altun, ICMA

Optimising Settlement Efficiency: An ERCC Discussion Paper
Published: 1 February 2022
Author: Alexander Westphal, ICMA

ICMA ERCC Briefing Note: The European Repo Market at 2021 Year-End
Published: 17 January 2022
Author: Andy Hill, ICMA

ICMA Position Paper: Proposal for a New Post-Trade Transparency Regime for the EU Corporate Bond Market
Published: 8 December 2021
Author: Elizabeth Callaghan, ICMA

Bonds to Bridge the Gender Gap: A Practitioner's Guide to Using Sustainable Debt for Gender Equality
Published: 16 November 2021
Author: ICMA/UN Women/IFC Joint Report

ICMA CPC White Paper: The European Commercial Paper and Certificates of Deposit Market
Published: 29 September 2021
Author: Andy Hill, ICMA

The First Year of SFTR Public Data on Repo
Published: 28 September 2021
Author: Richard Comotto

Investing in China's Interbank Bond Market: A Handbook
Published: September 2021
Authors: Ricco Zhang and Yanqing Jia, ICMA; Jianjian Yang and Fangzhu Li, NAFMII

The Sustainability Disclosure Regime of the European Union
Published: 22 September 2021
Authors: Nicholas Pfaff, Simone Utermarck, Arthur Carabia, and Ozgur Altun, ICMA

ICMA ERCC Consultation on the Role of Repo in Green and Sustainable Finance: Summary Report
Published: 20 September 2021
Author: Zhan Chen, ICMA

Guide to Tough Legacy Bonds in Asia-Pacific
Published: 25 May 2021
Authors: Mushtaq Kapasi and Katie Kelly, ICMA; Justin Kesheneff and Dennis To, Bloomberg

Overview and Recommendations for Sustainable Finance Taxonomies
Published: 18 May 2021
Authors: Nicholas Pfaff, Ozgur Altun, and Yanqing Jia, ICMA

ICMA AMIC Discussion Paper: ESG KPIs for Auto-loans/leases ABS
Published: 17 May 2021
Author: Arthur Carabia, ICMA

Industry Guide to Definitions and Best Practice for Bond Pricing Distribution
Published: 17 May 2021
Author: Elizabeth Callaghan, ICMA

ICMA ERCC Consultation Paper: Green and Sustainable Finance: What is the Role of the Repo Market?
Published: 22 April 2021
Author: Zhan Chen, ICMA

The Asian International Bond Markets: Development and Trends
Published: 3 March 2021
Authors: Andy Hill, Mushtaq Kapasi, Yanqing Jia, and Keiko Nakada, ICMA, supported by the Hong Kong Monetary Authority (HKMA)

The Internationalization of the China Corporate Bond Market
Published: 14 January 2021
Authors: Andy Hill and Yanqing Jia, ICMA

ICMA ERCC Briefing Note: The European Repo Market at 2020 Year-End
Published: 13 January 2021
Author: Andy Hill, ICMA

ICMA Events

ICMA made a welcome return in June to a hybrid AGM & Conference in Vienna. After two years of a digital format, our members and delegates returned in numbers comparable with the historical average for attendees. With many regional travel restrictions still in place, the hybrid format attracted almost 900 attendees in person, with 100 delegates joining online from around the world.

Mandy DeFilippo, Chair of the Board, ICMA, and Bryan Pascoe, Chief Executive, ICMA, set the tone at the AGM, laying out in their speeches the importance of trade associations in the context of an uncertain and rapidly changing market and socio-economic environment.

Both Mandy and Bryan highlighted the notable successes of ICMA over the last 12 months, including successful engagement with regulators in opposing mandatory buy-ins under the Central Securities Depository Regulation (CSDR), the transition from LIBOR to risk-free rates in the bond market, and working closely with the Securities and Futures Commission in Hong Kong to formalise rules & standards around primary market book building and placing. They also drew attention to the expansion of ICMA's outreach and education activities and the growth in membership to over 600 members in 65 jurisdictions globally.

Establishing the scene for the rest of the Conference, Chair and Chief Executive acknowledged the continued focus of the Association on the core areas: primary markets, secondary markets, and repo & collateral, and the rapidly growing cross-cutting themes of sustainable finance and FinTech. Additionally, the importance of diversity and inclusion were emphasised and positioned as a key theme for the ICMA to set the industry standard, as it does in its core areas.

The AGM ended with a fitting thank you to Martin Scheck for his exceptional contribution as ICMA Chief Executive over the last 12 years.

With that and a lunch break, the Conference opened to a packed audience and the pent-up enthusiasm created by a two-year hiatus. Over the next two days, keynote speeches, fireside chats and panels discussed, explored and debated the challenges and opportunities facing the global capital markets. Many topics were covered, from the pandemic and geopolitical crisis to sustainable finance, blockchain bonds, technology, diversity and inclusion, and of course, regulation. The audience received the insight and atmosphere only a close, in-person community can deliver.

Needless to say, after all the hard work, the delegates and speakers required a little culture and light refreshment. The Welcome Reception at Heuriger Wolff, ICMA Women's Network (IWN) and ICMA Future Leaders (IFL) receptions, and the Gala Reception at the historic Hofburg were thoroughly enjoyed, if not leading to the need for a little "Reparaturseidl", as they say in Vienna.

Following hot on the heels of the ICMA AGM & Conference, the Principles AGM and Conference took place in London at the European Bank for Reconstruction and Development (EBRD).

Denise Odaro, Chair of the Principles, and Nicholas Pfaff, Deputy Chief Executive and Head of Sustainable Finance, ICMA, updated the AGM on the new and updated publications for The Green Bond Principles (GBP), the Social Bond Principles (SBP), Sustainability and Sustainability-Linked Bond Principles (SLBP) ("the Principles"), including new definitions for green securitisation, updated key performance indicators for Sustainability-Linked Bonds (SLBs) and new resources for climate transition finance.

The Conference opened with a panel of the Executive Committee of the Principles, providing delegates with guidance on the 2022 additions and updates to the Principles. Keynotes followed from the Ministry of Finance for Chile and the International Energy Agency (IEA), which were very well received by attendees.

The panel sessions proved lively and well-debated, covering the critical issues of innovation and transition with SLBs, securitisation, emerging markets, high yield and sustainable commercial paper and repo at the shorter end of the curve.

Sir Robert Stheeman, Chief Executive Officer, UK Debt Management Office, closed the Conference with some notable remarks before delegates enjoyed a well-attended networking reception.

We would again like to thank all of our speakers, sponsors and exhibitors, members and delegates for joining us in Vienna and London and for their support in making this year's events memorable and exceptional.

We look forward to welcoming you back to our AGMs & their accompanying conferences in 2023.

ICMA Education

This year marks 30 years since the first publication of the Global Master Repurchase Agreement (the GMRA), a document which has become the foremost agreement for documenting cross-border repos globally.

ICMA Education, in association with Ashurst, are marking this anniversary by launching Introduction to the Global Master Repurchase Agreement, a fully asynchronous, online self-study (e-learning) course to provide an overview of the structure and purpose of repurchase transactions, describing the economic effects of repo and the underlying fundamental concepts. The course sits within our Repo & Collateral Management series of courses and features topics including the architecture of the GMRA, key provisions and features, benefits of using a master agreement, potential areas of risk and relevant case law.

Featuring 11 videos, each around 15 minutes in duration and narrated by Kirsty McAllister-Jones, Expert Counsel with Ashurst, the course includes downloadable scripts and concept checking questions following each video to ensure participants understand the content.

Presented on the ICMA learning platform Canvas, participants have the ability to ask the trainer questions via a message service and discuss the course with other participants on the discussion forum, plus receive access to supplementary materials from the association to ensure they stay up to date with the latest market and regulatory developments.

For more information about this and any of our courses, visit https://www.icmagroup.org/executive-education/

ICMA Education – the training provider for professionals in the capital markets

Glossary

ABCP	Asset-Backed Commercial Paper
ABS	Asset-Backed Securities
ADB	Asian Development Bank
AFME	Association for Financial Markets in Europe
AI	Artificial intelligence
AIFMD	Alternative Investment Fund Managers Directive
AMF	Autorité des marchés financiers
AMIC	ICMA Asset Management and Investors Council
AMI-SeCo	Advisory Group on Market Infrastructure for Securities and Collateral
APA	Approved publication arrangements
APP	ECB Asset Purchase Programme
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BMCG	ECB Bond Market Contact Group
BMR	EU Benchmarks Regulation
bp	Basis points
BRRD	Bank Recovery and Resolution Directive
CAC	Collective action clause
CBDC	Central bank digital currency
CBIC	ICMA Covered Bond Investor Council
CBIRC	China Banking and Insurance Regulatory Commission
CCBM2	Collateral Central Bank Management
CCP	Central counterparty
CDM	Common Domain Model
CDS	Credit default swap
CIF	ICMA Corporate Issuer Forum
CMU	Capital Markets Union
CoCo	Contingent convertible
COREPER	Committee of Permanent Representatives (in the EU)
CPC	ICMA Commercial Paper Committee
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payments and Settlement Systems
CRA	Credit rating agency
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
CSPP	Corporate Sector Purchase Programme
CSRC	China Securities Regulatory Commission
CT	Consolidated tape
D&I	Diversity and inclusion
DCM	Debt Capital Markets
DLT	Distributed ledger technology
DMO	Debt Management Office
DNSH	Do no significant harm
DVP	Delivery-versus-payment
EACH	European Association of CCP Clearing Houses
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Redevelopment
EC	European Commission
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council (of the EU)
ECON	Economic and Monetary Affairs Committee of the European Parliament
ECP	Euro Commercial Paper
EDDI	European Distribution of Debt Instruments
EDGAR	US Electronic Data Gathering, Analysis and Retrieval
EEA	European Economic Area
EFAMA	European Fund and Asset Management Association
EFC	Economic and Financial Committee (of the EU)
EFTA	European Free Trade Area
EGMI	European Group on Market Infrastructures
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMDE	Emerging market and developing economies
EMIR	European Market Infrastructure Regulation
EMTN	Euro Medium-Term Note
EMU	Economic and Monetary Union
EP	European Parliament
ERCC	ICMA European Repo and Collateral Council
ESAP	European single access point
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESG	Environmental, social and governance
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
ETP	Electronic trading platform
EU27	European Union minus the UK
ESTER	Euro Short-Term Rate
ETD	Exchange-traded derivatives
EURIBOR	Euro Interbank Offered Rate
Eurosystem	ECB and participating national central banks in the euro area
FAQ	Frequently Asked Question
FASB	Financial Accounting Standards Board
FCA	UK Financial Conduct Authority
FEMR	Fair and Effective Markets Review
FICC	Fixed income, currency and commodity markets
FIIF	ICMA Financial Institution Issuer Forum
FMI	Financial market infrastructure
FMSB	FICC Markets Standards Board
FPC	UK Financial Policy Committee
FRN	Floating-rate note
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FSC	Financial Services Committee (of the EU)
FSOC	Financial Stability Oversight Council (of the US)
FTT	Financial Transaction Tax
G20	Group of Twenty
GBP	Green Bond Principles
GDP	Gross Domestic Product
GFMA	Global Financial Markets Association
GHOS	Group of Central Bank Governors and Heads of Supervision
GMRA	Global Master Repurchase Agreement
G-SIBs	Global systemically important banks
G-SIFIs	Global systemically important financial institutions
G-SIIs	Global systemically important insurers
HFT	High frequency trading
HKMA	Hong Kong Monetary Authority
HMRC	HM Revenue and Customs
HMT	HM Treasury
HQLA	High Quality Liquid Assets
HY	High yield
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
ICMA	International Capital Market Association
ICSA	International Council of Securities Associations
ICSDs	International Central Securities Depositories
IFRS	International Financial Reporting Standards
IG	Investment grade
IIF	Institute of International Finance
IMMFA	International Money Market Funds Association
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
IRS	Interest rate swap
ISDA	International Swaps and Derivatives Association
ISLA	International Securities Lending Association
ISSB	International Sustainability Standards Board
ITS	Implementing Technical Standards
KID	Key information document
KPI	Key performance indicator
LCR	Liquidity Coverage Ratio (or Requirement)
L&DC	ICMA Legal & Documentation Committee
LEI	Legal Entity Identifier
LIBOR	London Interbank Offered Rate
LTRO	Longer-Term Refinancing Operation
MAR	Market Abuse Regulation
MEP	Member of the European Parliament
MiFID	Markets in Financial Instruments Directive
MiFID II/R	Revision of MiFID (including MiFIR)
MiFIR	Markets in Financial Instruments Regulation
ML	Machine learning
MMF	Money market fund
MOU	Memorandum of Understanding
MREL	Minimum requirement for own funds and eligible liabilities
MTF	Multilateral Trading Facility
NAFMII	National Association of Financial Market Institutional Investors
NAV	Net asset value
NCA	National competent authority
NCB	National central bank
NPL	Non-performing loan
NSFR	Net Stable Funding Ratio (or Requirement)
OJ	Official Journal of the European Union
OMTs	Outright Monetary Transactions
OTC	Over-the-counter
OTF	Organised Trading Facility
PBOC	People's Bank of China
PCS	Prime Collateralised Securities
PEPP	Pandemic Emergency Purchase Programme
PMPC	ICMA Primary Market Practices Committee
PRA	UK Prudential Regulation Authority
PRIIPs	Packaged Retail and Insurance-Based Investment Products
PSIF	Public Sector Issuer Forum
QE	Quantitative easing
QIS	Quantitative impact study
QMV	Qualified majority voting
RFQ	Request for quote
RFRs	Near risk-free reference rates
RM	Regulated Market
RMB	Chinese renminbi
RMO	Recognised Market Operator (in Singapore)
RPC	ICMA Regulatory Policy Committee
RSP	Retail structured products
RTS	Regulatory Technical Standards
RWA	Risk-weighted asset
SBBS	Sovereign bond-backed securities
SEC	US Securities and Exchange Commission
SFC	Securities and Futures Commission
SFT	Securities financing transaction
SGP	Stability and Growth Pact
SI	Systematic Internaliser
SLB	Sustainability-Linked Bond
SMEs	Small and medium-sized enterprises
SMPC	ICMA Secondary Market Practices Committee
SMSG	Securities and Markets Stakeholder Group (of ESMA)
SARON	Swiss Average Rate Overnight
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRO	Self-regulatory organisation
SSAs	Sovereigns, supranationals and agencies
SSM	Single Supervisory Mechanism
SSR	EU Short Selling Regulation
STS	Simple, transparent and standardised
T+2	Trade date plus two business days
T2S	TARGET2-Securities
TD	EU Transparency Directive
TFEU	Treaty on the Functioning of the European Union
TLAC	Total Loss-Absorbing Capacity
TMA	Trade matching and affirmation
TONA	Tokyo Overnight Average rate
TR	Trade repository
VNAV	Variable net asset value

ICMA

International Capital Market Association

ICMA Zurich
T: +41 44 363 4222
Dreikönigstrasse 8
CH-8002 Zurich

ICMA London
T: +44 20 7213 0310
110 Cannon Street
London EC4N 6EU

ICMA Paris
T: +33 1 70 17 64 72
62 rue la Boétie
75008 Paris

ICMA Brussels
T: +32 2 801 13 88
Avenue des Arts 56
1000 Brussels

ICMA Hong Kong
T: +852 2531 6592
Unit 3603, Tower 2,
Lippo Centre
89 Queensway Admiralty
Hong Kong